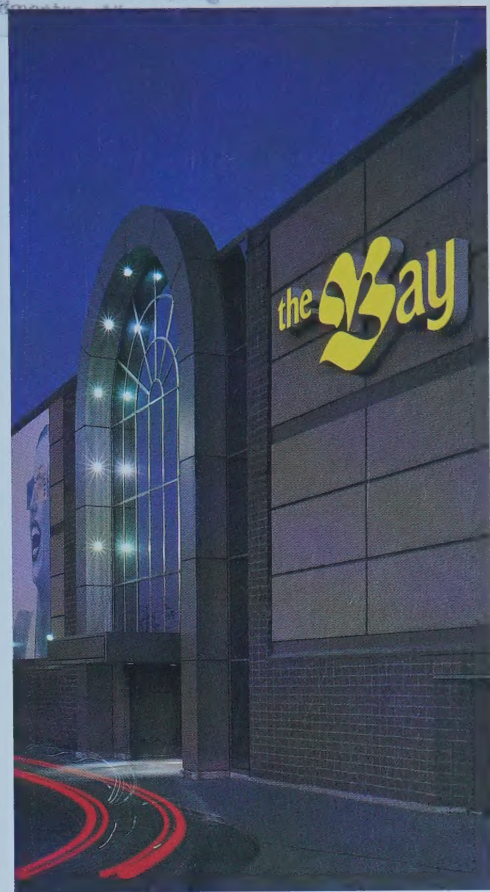
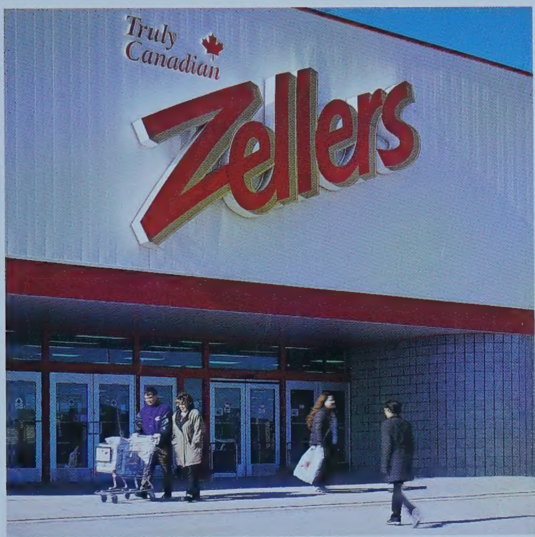




Hudson's Bay Company

Annual Report 2001

HUDSON'S BAY COMPANY
Hbc
CANADA'S MERCHANTS SINCE 1670

HBC Profile

Hudson's Bay Company, established in 1670, is Canada's largest department store retailer and oldest corporation. The Company provides Canadians with the widest selection of goods and services available through numerous retail channels including more than 500 stores led by the Bay and Zellers chains. Hudson's Bay Company is one of Canada's largest employers with 70,000 associates and has operations in every province in Canada.

Hudson's Bay Company is a seamless retail organization built to best serve the needs of the majority of Canadian consumers through several highly focused formats, linked by customer bridges and enabled by common and integrated support services.

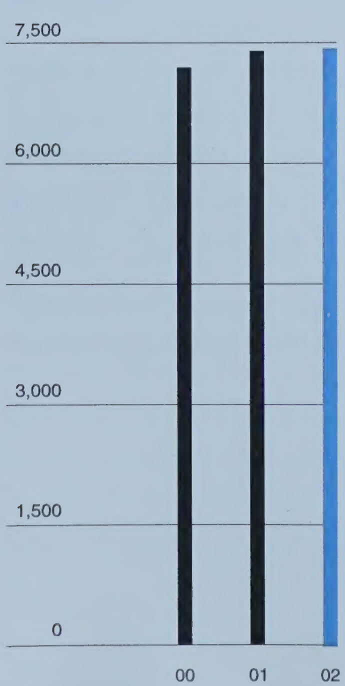
the Bay	Zellers	Home Outfitters	Hbc.com
100 Stores	323 Stores	22 Stores	Everywhere

Financial Highlights

Years ended January 31 (millions of dollars)	2002	2001	2000
Sales and revenue	7,445.8	7,400.0	7,193.9
Net earnings	72.8	125.3	96.0
Cash flow from operations	189.3	467.1	449.6
Capital expenditures	143.8	241.5	155.9
Debt:equity ratio	0.18:1	0.30:1	0.35:1
(dollars)			
Per share			
Net earnings	0.85	1.60	1.17
Net earnings – diluted	0.84	1.46	1.11
Cash flow from operations	2.69	6.50	6.03
Dividends	0.36	0.36	0.36
Shareholders' equity	30.38	29.78	27.91

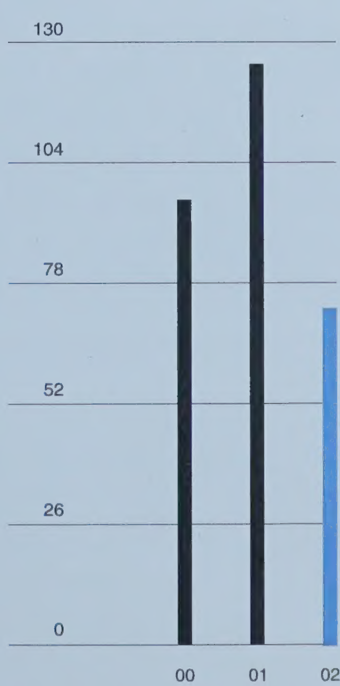
Sales and Revenue

($ millions)



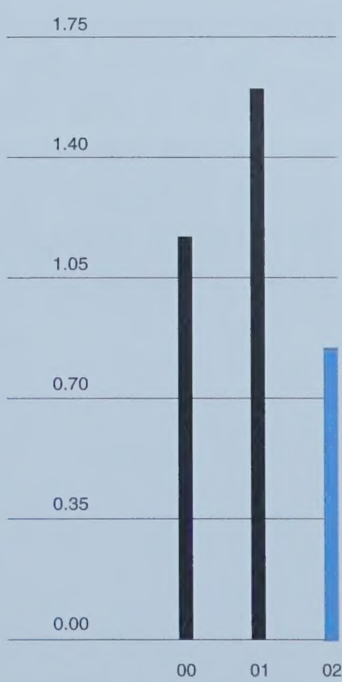
Net Earnings

($ millions)



Earnings per Share

($)



George J. Heller / LEFT
President & Chief Executive Officer
Hudson's Bay Company

L. Yves Fortier / RIGHT
Governor, Hudson's Bay Company

Canada's Merchants Since 1670

For over 330 years, Hudson's Bay Company has had a single mission: to be responsive to the needs and wants of Canadian consumers, offering value, quality and service, backed by a name they trust.

As Canadian consumers and society have grown and changed so has Hudson's Bay Company. Where 300 years ago a single format could fulfill the mission; today's customers need infinitely more choice and convenience. However, their desire for value, quality, service and trust has remained constant. HBC has worked diligently over the past several years focusing on how to better deliver on our promise to Canadians.

The Hudson's Bay Company family of stores – the Bay, Zellers, Home Outfitters and Hbc.com offer Canadians the broadest assortment of merchandise through a multi-format lifestyle concept tailored to the customer. By linking these concepts together with a common Hudson's Bay Company credit card and a common Hudson's Bay Company loyalty program, we are returning to our roots but are now a 21st century Hudson's Bay Company taking care of our 21st century customers.

Meeting the Challenges of 2001

Last year was disappointing in terms of operating results, but encouraging in terms of progress in executing our strategy. If retailing reflects society, it certainly mirrored the effects of a recession and job cuts, as well as consumer wariness and shock caused by the horror of September 11.

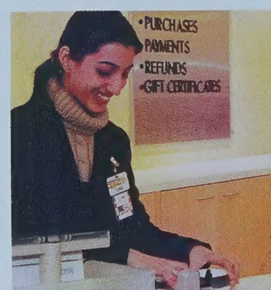
Hardest hit were apparel sales, at every price point and taste level, especially within the department and specialty store price points. The loss in gross margin resulting from lower sales and higher markdowns could not be compensated for by increases in non-apparel categories. The Bay's apparel sales were most affected, declining 6.4% while non-apparel, including Home Outfitters, increased 3.6%. The weakness in apparel sales was further complicated as a result of a major competitor liquidating a significant surplus in the category.

Zellers, far less reliant on apparel sales, saw overall sales rise 1.5%, but again, experienced margin pressure resulting from lower apparel sales while sales in non-apparel categories rose 2.4%.

Apparel inventories in both companies were cleared in a timely fashion. Though costly, this approach ensures that going forward assortments are fresh, providing HBC with plenty of purchasing power as apparel recovers. Given the worldwide slump in apparel, factories and vendors are capable of filling orders on a shorter timeline given the under-utilization of their production.

"Home" categories and other non-apparel areas were more resilient and we expect continuing growth as we target the HBC assortment to reflect the continuing decline of apparel as a percent of consumer spend.

Apparel will inevitably recover. The clean inventories, more and better private and exclusive brands, controlled forward placings and a less competitive apparel environment hold promise for improving margins even with modest sales increases. The Company managed expenses and inventories efficiently as the expense rate in certain controllable areas and the use of working capital both improved.



The Products Canadians Want

Becoming a shopping solution for Canadian consumers means that our family of stores must offer the best "end to end" assortment of merchandise to today's harried customers. We have made major strides this year in introducing, enhancing and expanding the products and services Canadians need and want.

Two major trends dominate retail today: Canadians are spending more of their disposable income on their home and home-related needs; and Canadians are far more price and value conscious. Canadians are returning to an era where brands no longer command a large premium to their inherent value. In response to this trend, HBC accelerated its drive to offer private and captive brand merchandise featuring national brand quality and design, priced at 25–40% less than comparable national and international brands.

At the Bay, in addition to layering in captive and private brand fashions, we are strengthening our position in well-known international brands in the Canadian urban centres, capitalizing on the demise of Eatons and further increasing our lead as Canada's style and fashion department store. We are adding value to style leadership.

In 2001, the Company established an HBC Global Sourcing organization reporting to the office of the CEO. Its mission is to find the best socially compliant and capable factories, aggregate the total HBC buy and ensure best cost/quality ratios and delivery. The effect of all orders being placed as HBC versus by format ensures we fully leverage our buying power, removing the opportunity for discrimination based on perceived pricing

"leeway" between mass and department stores. This will create more value for the customer and continue to grow our private brands and thus our differentiation.

A year and a half ago, Marc Chouinard, President of the Bay, introduced *Mantles* and *ToGo*, the Bay's initial two private brands. In 2001, the Bay expanded both lines at the moderate price point and introduced two new budget brands offered at an everyday price – *Outline* for apparel and *Market Square* for home and home-related. Initial reaction was so positive that we expect to double the volume this year. In addition, *Bay Value* was introduced, a program offering exclusive national brand merchandise at everyday price, never discounted. Ensuring merchandise offerings present better value at medium price points while becoming less reliant on discounting is key to the Bay's ability to compete in suburban markets.

Thomas Haig, President of Zellers, continued the remarkable growth of captive and private brands, growing sales by 34% over 2000. Captive and private brands now represent over 30% of Zellers' total sales. Customers increasingly shop Zellers' exceptional value and well designed exclusives. Brands such as *Truly*, *Cherokee* and *Wabasso* have become household names. This year, three more private brands will be added to the roster of 12, further enhancing the price/value image and differentiation.

Responding to the changing shopping patterns of our customers, both the Bay and Zellers have expanded their offering in home and home-related products. The Bay continued to invest in furniture, electronics and appliances, expanding the total square footage and adding salespeople with an enhanced commission structure.

The Bay aggressively grew Home Outfitters, adding 16 stores with up to 17 opening this year. This "category killer" based mainly in power centres, expands the HBC reach in an area where we have large market share and competency – bed, bath, kitchen and home décor. This concept provides Canadians with a dominant assortment in these categories across all price points at everyday low prices.

At Zellers, Thomas and his team launched a successful lawn, patio furniture and accessories program. Sales grew by multiples over previous years. Zellers also piloted an expanded electronics strategy, broadening the offer to include famous brand names and new products. Zellers' ready-to-assemble furniture program launched chain-wide in August and received tremendous response from customers.

Zellers expanded its food assortment and piloted the "*Neighbourhood Market*" concept in a number of test stores and initial customer feedback is encouraging. All food-related products were merchandised together, and freezer and cooler products were added to provide one-stop shopping convenience to "Moms."

The combination of improved in-stock and Zellers' move to everyday low pricing has greatly enhanced Zellers' value proposition. In 2002, Zellers will complete the migration to everyday low pricing.

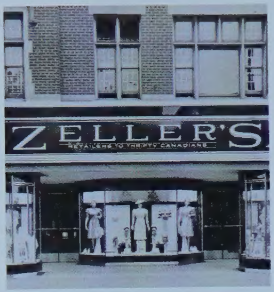
How Canadians Want to Shop

Along with the improvement in the merchandise assortment within HBC, we continue to improve the shopping experience and environment, seeking to attract and engage the customer.

Bay/Home Outfitters

Stylish Ideas Made Easy has been the Bay's positioning for the past two and a half years. The Bay is making it easy for the customer to transact with us by continuing the rollout of the central cash and service system, outfitting 10 more stores. With 71 stores operating central cash, customer response continues to be positive. The Bay also opened Hbc Rewards kiosks in every store to better service Hbc Rewards and Hbc.com orders.

Customer research since the original design of our Erin Mills suburban prototype demonstrated that the department store customer views fitting rooms, both accessibility and service within, as a significant service enhancement. In response to customer feedback during 2001 and continuing into 2002, the Bay has launched a fitting room consolidation and renovation program designed to deliver the customer an "easy" shopping experience.



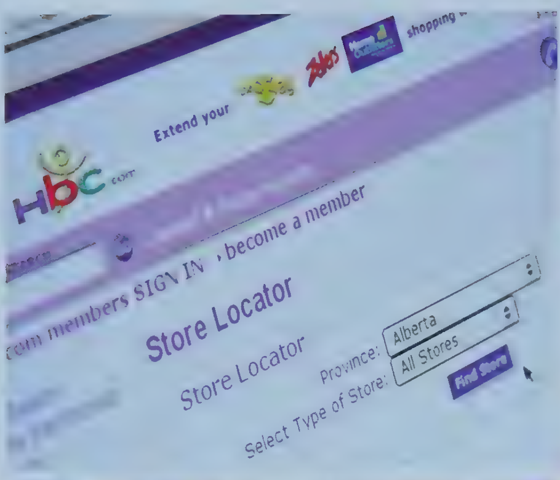
The Bay is also optimizing the service in full service departments such as cosmetics and jewelry by improving labour scheduling practices, measurements and training. The focus on individual store associate productivity and scorecard measurement will continue to not only improve service in 2002 but also drive sales.

During 2001, the Bay began the renovation of the downtown Montreal flagship store, which will be complete by August 2002, and finalized the renovations in the significant "experience" store, Yorkdale. The majority of renovation capital for the Bay continues to be directed towards enhancing the interiors of the 18 "experience" store locations where the customer seeks a shopping experience.

Home Outfitters, our bed, bath and kitchen superstore concept continues to evolve from an assortment and service point of view. The goal at Home Outfitters is to provide the suburban female shopper with a home decorating shopping experience, along with service when she needs it, at the prices she wants.

Zellers

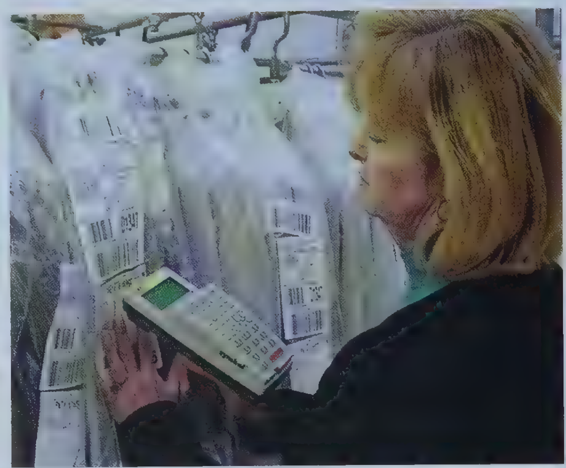
In 2001, Zellers continued on its path to become a shopping destination for its core customer – Mom, with children under 12. Driven by its vision of "*Mom's Store – Priced Right*," Zellers celebrated its 70th anniversary by continuing improvements towards meeting her needs and wants.



By offering her a broad merchandise assor [illegible] Canadian shoppers with a combination [illegible] exclusive captive and private brands.

Over the last two years, Zellers conti [illegible] capabilities with the introduction of new m [illegible] Warehouse) and the refinement of critical [illegible] best ever in-stock position of key items. A new [illegible] was established in 2000 with a mandate [illegible] processes which has resulted in both [illegible] re-organization of the Zellers buying [illegible] strategies, supported by over 15,000 hours [illegible]

Zellers continues to refine its re [illegible] into a nation-wide chain with large [illegible] enhanced shopping environment and broad [illegible] has reduced its total store count by [illegible] while increasing average store [illegible] conversion of several locations to [illegible] assortment of key items with a [illegible] 25,000) market stores.



Putting Products in Place

Hudson's Bay Company has completed year three of our five-year program to implement an ambitious schedule of state-of-the-art technology platforms and processes. This strategy is based on the accomplishment of three goals – to greatly improve decision support for our merchandisers and operators; effectively manage inventory; and reduce costs.

Retailing today requires a series of competencies to get the right item, to the right store, in the right quantity, at the right time. A successful retailer requires an advanced and efficient supply chain. Hudson's Bay Company experienced significant advancements in this area in 2001 as the Company executed the next wave of the IT strategy.

At Zellers, the first complete year of an enterprise wide merchandising system and an improved forecasting and replenishment system enabled Zellers to achieve the highest in-stock positions in its recorded history while reducing inventory. These systems were further enhanced by extensive process engineering of the product buying and flow activities. Zellers benefited from the development of a sophisticated data warehouse providing tremendous insights on product movement and purchasing patterns.

The Bay has also invested in supply chain through common systems and focused process improvements with better inventory controls and forecasting. The Bay will implement a common merchandising system in 2002 which will bring the major retail systems for HBC into alignment.

Internally, HBC continues to drive efficiency through the development of our self-serve e-business solutions such as internet-based appointment scheduling, web-based training and employee expense services. Efficiencies will be further enhanced through the implementation of a complete suite of new financial systems during the year.

The Integrated Process and Information Technology groups have been streamlined and have built relationships, such as our Strategic Technology Alliance, with organizations in the technology and process improvement fields, to bring the best solutions to HBC and reposition us as a retail showcase

Caring for Customers and Rewarding Loyalty

Hudson's Bay Company has supported the Commonwealth Games Association since 1997.

Together with the Canadian Red Cross, Hudson's Bay Company responds to Canadian disasters.

Zellers' Moonwalk raises $1 million each year for the Canadian Cystic Fibrosis Foundation.

Canadian Communities are HBC Communities

Hudson's Bay Company has a unique responsibility [illegible] which we take very seriously. The people of HBC [illegible] the community life of all Canadians.

In 2001, we invested over $11 million with [illegible] charitable activities at home and abroad. This effort was led [illegible] in our two main retail banners. Zellers *Friends* [illegible] charities benefiting the lives of mothers and their families. [illegible] *Foundation* did the same for Canadians living with [illegible] propelled us to take the unprecedented step of [illegible] Cross USA Appeal. Through the *Hudson's Bay Company* [illegible] with The Manitoba Museum of Man & Nature and The Manitoba [illegible] other organizations to promote Canada's heritage and [illegible] future generations. Through the *Hudson's Bay Company* [illegible] invested in arts and culture groups.

A core element of Hudson's Bay Company's [illegible] been the fundamental trust that we stand behind the products we [illegible] through HBC Global Sourcing, has instituted industry [illegible] with international partners to ensure that every product [illegible] the manufacturers of all HBC merchandise are audited regularly to ensure [illegible] with our Vendor Code of Conduct. Our Vendor Code is publicly available and meets or exceeds the highest standards within the retail industry for the [illegible] working conditions in any facility producing products for HBC as a fundamental component of the promise we make to our customers.

Going Forward

... 2001 would be a challenging
... witnessed late in the year.
... to our customers' concerns.
... engineered our operation to
... ategy.
... inventory while improving cash
... gains, although at reduced
... poor apparel sales. HBC
... continuing to build better retail

... themselves into the top
... impressive field of over 600.
... is a significant validation of
... progress to date and their
... HBC into a seamless retail organization.
... than last, the consensus is that the economy will
... increased consumer spending and confidence.
... closing two of seven stores and converting the
... d as Canada's style and fashion
... in branded fashion pricing in Canada.
... in Canada as it has over the past seven years
... adding to its growth of over $1.1 billion in sales
... and better product introductions, everyday low
... shopping experience with record in-stock rate

... new retail format in Canada and indeed,
... the U.S., we see a slowdown in the growth of new

... cross-banner shopping within HBC are very positive.
... 1.4 million new members in nine months and the HBC
... all our channels
... remains committed to completing our strategy of trans-
... centric, building better value in all our channels while reducing
... HBC is a shopping solution for Canadians, a multi-channel
... services Canadians need. We are Canada's merchants.

George J. Heller

L. Yves Fortier
Governor

2001 Financial Review

Management's Discussion and Analysis

Business Profile

Hudson's Bay Company (HBC or the Company), established in 1670, is Canada's largest department store retailer, oldest corporation and one of Canada's largest employers. The Company provides Canadians with the widest selection of goods and services through its retail channels that include 551 stores, consisting mainly of the Bay and Zellers. In 1999, the Company launched Home Outfitters, a kitchen, bed and bath superstore chain. The Company also operates a Financial Services division, and is engaged in several other smaller operating and retailing activities: Fields, a chain of 106 small value-priced general merchandise stores located in western Canada; and Hbc Direct, the Company's direct-to-customer business which includes catalogue operations, third party loyalty programs and the Company's online store, Hbc.com, all supported by a common central fulfillment centre.

Strategy

HBC's mission for over 300 years has been to meet the needs and wants of Canadians. HBC continues to redefine its place in Canadian retailing with an operating model that is sustainable and that can provide growth opportunities. The strategy is to become a seamless retail organization built to best serve the shopping needs of the majority of Canadian consumers through several highly focused formats, linked by customer bridges and enabled by common and integrated support services which create third party opportunities for revenue and profit. The results of this strategy continue to be a better, broader and deeper range of products and services to HBC customers, a more efficient and productive use of assets, and a better return to shareholders.

Central to HBC's strategy is the concept of "align and leverage." The Company's goal is to provide all retail formats with common, integrated, effective and cost efficient "back-of-house" infrastructure and services. This allows the retail formats to concentrate on the unique customer facing components of the retail business – merchandising, marketing and service. One component of HBC's "align and leverage" concept is HBC Shared Services which focus on providing the best and most cost effective support systems for the Company's retail operations.

During 2001, examples of "align and leverage" in the Company's support services are described below:

- HBC established two departments focused on merchandise and non-merchandise sourcing with the objective of consolidating and maximizing the Company's vendor base, leveraging the Company's total buying power, redeploying people and skill sets and ensuring quality and consistency of HBC merchandise and non-merchandise purchases.
- The Company has continued to invest significant funds in technology to create common support platforms and to improve both HBC's systems and processes. This will result in improved decision support, better inventory management and reduction in costs.
- The Company introduced the Hbc Rewards program and re-issued a Hudson's Bay Company branded credit card that makes it easier for consumers to shop, encourages cross-banner shopping and results in credit operational efficiencies.

In both the mass and department store channels, the Company continues to be pressured by two major competitors. Therefore, it is critical to the Company's strategy to focus on the sum of all the Company retail formats targeted to match Canadians' total spend – essentially to become a shopping solution. Through the alignment of HBC formats, the Company offers the widest range of merchandise and services in the Canadian marketplace. The Company continues to execute programs to increase the breadth and assortment of merchandise across all of the retail formats.

In 2001, the Bay and Zellers initiated various activities that support the Company's strategy. The key strategic actions taken in 2001 are described in the operating section for each of the retail divisions and Financial Services.

Underpinning HBC's strategy are three financial objectives and guidelines to maximize shareholder value in the long term:

- Grow HBC's earnings per share by 8% to 10% annually;
- Improve inventory turnover on a cost basis to four times; and
- Maintain the long-term debt:equity ratio, including securitization funding, below 0.85:1.

Although the difficult retail climate in 2001 has slowed progress in achieving HBC's financial goals, the Company remains committed to executing its strategic plan and continues to work on reducing its cost structure, better managing inventories and realizing more productivity benefits.

Consolidated Results

The Company's fiscal year-end is January 31. The financial tables and commentaries referring to 2001, 2000 and 1999 fiscal years cover the 52-week period ended January 31, 2002, 2001 and 2000, respectively.

Due to a change in generally accepted accounting principles, 2001 licensed revenues, net of cost of sales, are reflected in sales and revenue. All prior period sales and revenue and cost of merchandise results have been reclassified with no impact on net earnings.

Highlights of the consolidated results reported for 2001, 2000 and 1999 were:

- Sales and revenue in 2001 of $7,446 million increased less than 1% from the 2000 level of $7,400 million and increased 3.5% from the 1999 level of $7,194 million.
- Earnings before interest expense and income taxes (EBIT) in 2001 was $186 million, compared to $300 million in 2000 and $271 million in 1999.
- Net earnings were $73 million in 2001, compared to $125 million in 2000 and $96 million in 1999.
- After deducting dividends for equity subordinated debentures and convertible unsecured subordinated debentures, earnings per share (EPS) in 2001 were $0.85, a decrease of $0.75 over 2000's EPS of $1.60 and a $0.32 decline from 1999's EPS of $1.17.

Operating results for year 2001 were impacted by transactions that do not arise as part of normal day-to-day business operations and that could potentially distort the analysis of trends. To provide a more meaningful comparison of operating results, all further discussions, including the operating segment discussion, will be based on the Company's operating results excluding the items described below:

- A net gain in 2001 of $26.3 million due to an accounting change in the second quarter of 2001 to comply with new rules for securitized credit card receivables.
- Additional costs recorded in Q4 2001 totalling $21.8 million related to accelerated store closures in Zellers.
- Costs booked in Q4 2001 amounting to $5.5 million (primarily severance) to improve business processes and make organizational changes at the Bay and Zellers.

The accelerated store closures and the business process streamlining activities will immediately create operating efficiencies and improve sales per square foot.

The following table summarizes the Company's operating results for the last three years. The results in 2001 exclude the effects of the transactions described in the previous paragraph. These transactions increased reported sales by $26.3 million, and lowered reported EBIT and reported net earnings by $1.0 million and $0.6 million, respectively.

(millions of dollars)	2001	2000	1999
Sales and revenue	7,420	7,400	7,194
EBIT:			
Major retail divisions (including Financial Services)	201	319	278
Other	(15)	(19)	(7)
Total EBIT	186	300	271
Net earnings	73	125	96
Earnings per share	$ 0.86	$ 1.60	$ 1.17

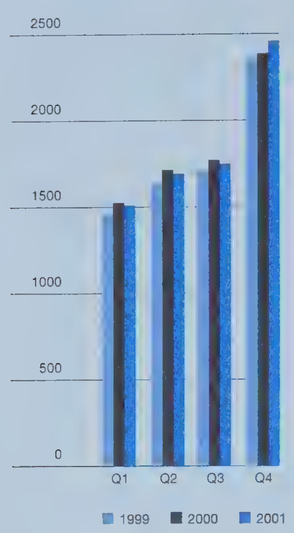
Results for the major retail divisions and Financial Services are discussed under the heading "Review of Operations" following this section.

Sales and revenue by quarter for the last three years are shown in the table below:

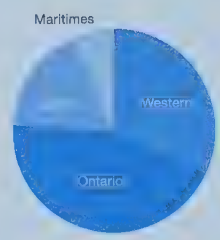
(millions of dollars)	2001	2000	1999
Sales:			
First quarter	1,513	1,526	1,467
Second quarter*	1,695	1,715	1,641
Third quarter*	1,752	1,772	1,719
Fourth quarter*	2,460	2,387	2,367
Total*	7,420	7,400	7,194

* Excludes net gains recorded in 2001 on the securitization of credit card receivables.

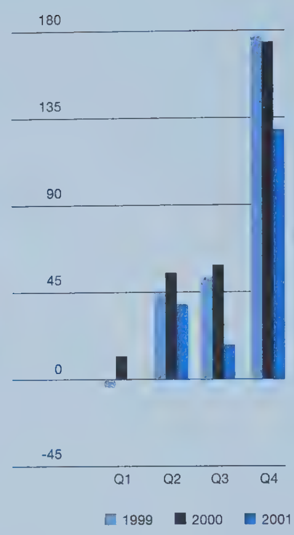
Sales
($ millions)



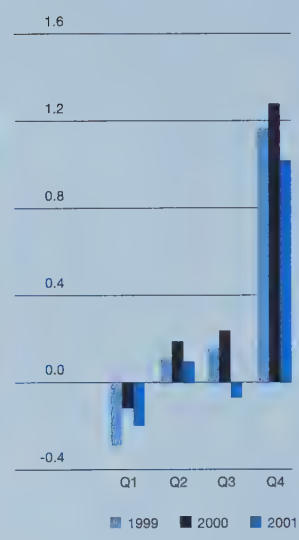
Sales by
Geographic Regions



EBIT
($ millions)



Earnings per Share
($)



The percentage of retail sales of the Company derived from each of the four geographic regions of Canada for the last three years has been stable. The following table illustrates this:

	Average	2001	2000	1999
Geographic regions:				
Western	32%	32%	32%	32%
Ontario	44%	44%	44%	43%
Quebec	17%	17%	17%	18%
Maritimes	7%	7%	7%	7%
	100%	100%	100%	100%

EBIT by quarter for the three years ended January 31, 2002, were as follows:

(millions of dollars)	2001	2000	1999
EBIT:			
First quarter	–	12	(4)
Second quarter*	39	55	45
Third quarter*	18	59	53
Fourth quarter*	129	174	177
Total*	186	300	271

* Excludes net gains on the securitization of credit card receivables in 2001 and Q4 2001 costs for accelerated store closures and organizational changes.

In 2001, EBIT of $186 million decreased $114 million from the prior year's level. EBIT comprises retail EBIT and Other. Retail EBIT in 2001 of $201 million, which decreased $118 million or 37% from the year 2000 level, is discussed under the Bay and Zellers commentary sections. The "Other" category of earnings represents items not directly attributable to the major retail divisions and Financial Services. Included in the "Other" category were unallocated corporate expenses and miscellaneous profits and losses from various ongoing and non-recurring secondary retail and other activities. The operations of Fields, HBC's chain of small general merchandise stores in western Canada, earnings from real estate activities, pension credits and Hbc Direct costs are also included. In 2001, 2000 and 1999, there were losses from these items of $15 million, $19 million and $7 million, respectively.

Total interest expense was $54 million in 2001, a decrease of $8 million from the 2000 level. The decrease in interest expense reflected the impact of lower interest rates during year 2001 and lower debt levels. During 2001, the Company's average interest rate on borrowings decreased to 5.5% from 7.5% in year 2000 and the average interest rate on fixed and swapped debt decreased to 7.0% from 7.5%. In total, the Company's average interest rate for 2001 decreased to 6.9% from 7.5% in 2000.

For 2001, the Company's effective income tax rate was lower compared to the effective tax rate in 2000, reflecting a recovery of future income taxes related to the benefit of federal and provincial income tax rate reductions. The benefit of the tax recovery totalled $9.1 million or $0.13 per share.

After deducting net dividends for equity subordinated and convertible unsecured subordinated debentures, EPS in 2001 were $0.86, a decrease of 46% from year 2000's EPS of $1.60 and a reduction of 27% from 1999's EPS of $1.17. EPS by quarter for the last three years were as follows:

(dollars)	2001	2000	1999
Earnings (loss) per share:			
First quarter	(0.20)	(0.12)	(0.29)
Second quarter*	0.10	0.19	0.12
Third quarter*	(0.07)	0.24	0.16
Fourth quarter*	1.04	1.29	1.18
Full year*	0.86	1.60	1.17

* EPS in 2001 excludes net gains on the securitization of credit card receivables and Q4 2001 costs for accelerated store closures and organizational changes.

Review of Operations

Retail Environment

Economic forecasting is challenging in any environment, but it is particularly difficult following the events of September 11th. The combination of a reviving U.S. economy and stimulative fiscal and monetary policies should contribute to growth in Canada, which will likely be mute in the first half of 2002 and increase in the later half of the year.

The Canadian retail environment will continue to be very competitive. Except for power centres, the retail market is mature with concentration in a few retailers. Ongoing format changes and intense competition from retailers such as Sears, Wal-Mart and the warehouse clubs, as well as from Department Store Type Merchandise (DSTM) stores, will continue in the Canadian retail marketplace.

During 2001, Canadian Tire successfully completed the acquisition of Mark's Work Warehouse. In 2001, Best Buy acquired Future Shop, while Old Navy entered the market with 12 stores, and Williams-Sonoma and Pottery Barn opened three stores in Toronto. Further expansion plans for these retailers are uncertain and have in some cases been delayed. Children's Place Retail Stores recently acquired the leases of 23 stores, which is the first step of its expansion plans in Canada. Wal-Mart opened an additional 21 stores in 2001 and is expected to open at least the same number in 2002.

Department Store Sales (DSS) for calendar 2001 were up 7.9%, primarily due to the re-introduction of previously closed retail space, and DSTM sales were up 4.1%. HBC expects that the DSTM sales change will be moderate in 2002 with low single-digit growth. DSS should begin to improve in the second half of 2002, as consumer spending increases, helped by a recovering job market. The trend of lower apparel sales and a growth in the home category should also continue in 2002.

The Bay

Business Profile

At January 31, 2002, the Bay, HBC's fashion department store retail brand, had 100 department stores across Canada. The Bay offers style and trend leadership in private and national brands to middle and upper income Canadians. Emphasizing fashionable soft goods and products for the home, the Bay provides its customers with traditional department store services and guarantees. During 2001, the Bay continued to strengthen its private brands strategy and enhanced service levels by continuing the renovation of its stores and the introduction of new service amenities. In 1999, the Bay launched Home Outfitters, a kitchen, bed and bath superstore chain with a footprint in the range of 34,000 to 40,000 square feet. At January 31, 2002, the Bay had 22 Home Outfitters stores with plans to open up to 17 new Home Outfitters stores in 2002.

Strategy

The Bay will exceed the customer's expectations by being Canada's best department store chain, offering affordable style and trend leadership in private and national brands to middle and upper income Canadians.

The Bay will increase productivity of its assets through three main strategies:

1. Improve department store offerings.

- Solidify and build on the Bay's fashion and style leadership position.
- Develop private brands to deliver value and a consistent fashion look.
- Re-position the Bay brand to stand for *Stylish Ideas Made Easy and Affordable.*
- Differentiate suburban and urban stores to exceed customer expectations.
- Achieve operational excellence through business process redesign.
- Evolve the culture to create ownership, accountability and productivity.

2. Intensify utilization of space.

- Improve the productivity per square foot in the Bay stores, particularly through expansion of furniture and other major home fashion businesses, and through complementary licensed businesses.

3. Increase investments in growth assets.

- Invest in Home Outfitters which is expected to open up to 17 stores during 2002 in major Canadian cities.

Financial Performance

(millions of dollars)	2001	2000	1999
Sales and revenue*	2,659	2,703	2,521
EBIT*	61	162	128
Net assets	1,169	1,207	1,155

* Excludes net gains on the securitization of credit card receivables in 2001 and Q4 2001 costs for organizational changes.

Performance measures for the last three years were as follows:

	2001	2000	1999
Comparable store sales change (%)	(4.8)	5.6	4.7
Retail sales per selling square foot (dollars)	180	188	177
Inventory turnover on cost basis (times)	2.75	2.78	2.63
Return on assets (%)	5.4	13.7	10.5

Sales and revenue in 2001 of $2,659 million were down $44 million or 1.6% from last year, with comparable store sales down 4.8%. The Bay's DSS market share decreased to 13.0% in calendar 2001 from 14.5% in 2000. Average sales per square foot of retail selling space was $180, compared to $188 per square foot in 2000, which represented an $8 decrease. The sales decrease was in line with general retail trends in 2001, reflecting the impacts of economic uncertainties, consumer slowdown of discretionary spending, the addition of over two million square feet of competitive retail space and aggressive price promoting in the department store channel.

EBIT for 2001 of $61 million decreased by 62% or $101 million from last year due to a lower sales level and a decrease in gross margins, reflecting increased promotional activity to generate sales volume and increasing sales blend of lower margin major home fashion business.

Inventories at January 31, 2002, of $520 million were $23 million below the January 31, 2001 level of $543 million due to improved inventory management processes and systems. Excluding Home Outfitters, the Bay's inventory was lower by $43 million or 8.1%. At January 31, 2002, the inventory turnover (on a cost basis) at the Bay (excluding Home Outfitters) was 2.79 times, compared to 2.78 times last year. Inventories are expected to decline in 2002 due in part to enhancements to the inventory management processes and the implementation of the Retek merchandising system in 2002.

The number of Bay stores and aggregate gross areas in square feet by province at the last three year-ends were as follows:

	Number			Square Feet (thousands)		
	2001	2000	1999	2001	2000	1999
British Columbia	18	18	19	2,983	3,061	3,193
Alberta	16	16	16	2,469	2,496	2,447
Saskatchewan	3	3	3	426	467	457
Manitoba	2	2	3	758	797	920
Ontario	38	38	36	6,786	6,685	6,503
Quebec	19	20	19	3,145	3,220	2,978
New Brunswick	1	1	–	121	120	–
Nova Scotia	3	3	3	375	384	384
	100	101	99	17,063	17,230	16,882

The number of Home Outfitters stores and aggregate gross areas in square feet by province at the last three year-ends were as follows:

	Number			Square Feet (thousands)		
	2001	2000	1999	2001	2000	1999
Alberta	5			201		
Manitoba	2			78		
Ontario	11	6	3	500	303	181
Quebec	4			158		
	22	6	3	937	303	181

The Company owns the land and buildings of nine large downtown Bay stores and three other Bay stores, including the Toronto downtown Queen Street store building and approximately 60% of the related land, and the buildings (on leased land) of six suburban Bay stores. The remaining stores are generally held under long-term leases. During 2001, the Bay opened 16 Home Outfitters stores and closed one Bay store. The Home Outfitters stores are held under long-term leases.

Operating Highlights for 2001

During 2001, the Bay made significant progress in a number of key areas, including:

- The continued roll-out and development of the two Bay lifestyle private brands introduced in 2000, *Togo* and *Mantles*.
- The introduction of two additional private brands, *Outline* and *Market Square*, at budget everyday price points, and the introduction of the *Bay Value* program, offering exclusive national brands at everyday pricing.
- The retrofitting of 10 suburban stores with the new store layout featuring a centralized cash and service area, designed to improve customer service and ease of shopping.
- The documentation and improvement of 73 work processes resulting in improved inventory and merchandise management.
- The expansion of the major home fashion assortment to an additional six stores bringing the number of stores offering this full assortment to 68.
- The opening of 16 additional Home Outfitters stores, offering unbeatable style and selection for the home at everyday low prices.

Outlook for 2002

The retail marketplace in 2002 is expected to be modestly stronger than 2001 with most of the recovery expected in the second half of the year. Most retailers will manage their inventories accordingly, and this should reduce the level of discounting experienced in the marketplace in 2001.

The Bay has significantly improved the level and quality of its inventory, and will continue to manage inventory purchases in a prudent manner. Improved inventory management processes have increased the Bay's ability to both plan and react to emerging sales levels which should result in better margins.

Zellers

Business Profile

At January 31, 2002, Zellers, HBC's mass merchandise retail brand, had 323 stores. Zellers offers national and private brand merchandise at prices that provide value to its customers. During 2001, Zellers continued to renovate stores to the new prototype format featuring wider aisles, improved presentation and selection of merchandise. As of January 31, 2002, Zellers had converted 143 of its stores to this new format, representing over 50% of total store selling space. Zellers operates 30 of its smaller stores as "Zellers Select."

Strategy

Zellers' strategy is to become the preferred store of Canadian "Moms" by offering a broad assortment of products that respond to her needs and wants, including her family and her home. The strategy will be achieved through the following initiatives:

- A refined value proposition – anticipating Mom's assortment needs and wants with a combination of priced-right national as well as exclusive private and captive brands.
- An improved real estate portfolio – becoming a nation-wide chain with fewer, larger, conveniently located stores by market, positioned to effectively deliver the best assortment and service to Mom.
- Enhanced systems, technology and processes.

Financial Performance

(millions of dollars)	2001	2000	1999
Sales and revenue*	4,675	4,607	4,569
EBIT*	140	157	150
Net assets	1,561	1,636	1,740

* Excludes net gains on the securitization of credit card receivables in 2001 and Q4 2001 costs for accelerated store closures and organizational changes.

Performance measures for the last three years were as follows:

	2001	2000	1999
Comparable store sales change (%)	1.1	0.4	2.3
Retail sales per selling square foot (dollars)	201	199	197
Inventory turnover on cost basis (times)	2.96	2.82	2.70
Return on assets (%)	8.2	9.1	8.6

Sales and revenue increased 1.5% in 2001, with comparable store sales up 1.1% (hardlines up 2.4%, apparel down 4.3%). Sales growth during the year was impacted by increasing competitive pressure, the unseasonable weather patterns in the spring and in the fourth quarter of 2001, as well as general economic uncertainty. DSS market share for Zellers was 22.9% in calendar 2001, down from 24.3% in 2000, due mainly to the increased competitive pressure in the marketplace. Zellers' average sales of $201 per square foot of retail selling space was $2 higher than 2000 and $4 higher than 1999.

EBIT decreased in 2001 as a result of lower margins in the highly competitive mass market, due mainly to lower sales of higher margin fashion items (blend of business). EBIT in 2001 included $19 million of store closure costs and pre-opening costs of new stores compared with $19 million in 2000 and $28 million in 1999.

In the face of challenging sales and revenue growth, inventories were well controlled, with the January 31, 2002, inventory level of $942 million being $63 million below the 2000 fiscal year-end inventory level. Inventory turnover on a cost basis improved to 2.96 turns from 2.82 in 2000. Zellers also expects to further reduce its inventory level during 2002 through better inventory processes and the use of the new technologies implemented over the last three years.

The number of stores and aggregate gross areas in square feet by province at the last three year-ends were as follows:

	Number			Square Feet (thousands)		
	2001	2000	1999	2001	2000	1999
British Columbia	39	41	41	3,616	3,685	3,538
Alberta	30	30	30	2,695	2,672	2,607
Saskatchewan	12	12	12	912	912	912
Manitoba	9	8	9	904	779	777
Ontario	137	142	139	12,523	12,807	12,242
Quebec	61	62	61	5,369	5,402	5,266
New Brunswick	12	12	12	961	961	960
Nova Scotia	14	14	15	1,302	1,267	1,309
Prince Edward Island	2	2	2	203	173	173
Newfoundland and Labrador	7	7	7	511	507	503
	323	330	328	28,996	29,165	28,287

At January 31, 2002, HBC owned 13 Zellers stores. The remaining Zellers stores are generally held under long-term leases. During 2001, Zellers opened four new stores, expanded seven stores, renovated four stores and closed 11 stores.

Operating Highlights for 2001

During 2001, Zellers continued to successfully implement a significant number of initiatives in support of its strategic objectives and in realizing benefits for the business. Highlights of the key initiatives include:

- Introduction of expanded product assortments, including outdoor patio furniture and indoor ready-to-assemble furniture, as well as expanded food, electronics and pet supply areas in selected stores.
- Successful implementation of everyday low pricing (EDLP) in a number of key merchandise areas, with further EDLP programs planned for 2002.
- Sustained improvements in overall in-stock position (increased from 91% to 95%), while reducing total inventory levels.
- Increased sales of private and exclusive brands, which now represent over 30% of total retail sales.
- Continued rationalization of Zellers' real estate portfolio. Since 1998, Zellers has reduced its total number of stores by 19, while increasing the average store size by more than 8%. During 2001, Zellers successfully opened the first new Zellers Select store (i.e. not a converted location) in Elliott Lake, Ontario.
- Implementation of comprehensive and continuing internal business process improvements.

Outlook for 2002

It is anticipated that the competition within the Canadian mass retail sector experienced in 2001 will continue, if not accelerate, in 2002. However, with strong sales trends in the fourth quarter of 2001, lower and better quality year-end inventories and continuing enhancements to internal systems, technology and processes, Zellers is well positioned to improve internal productivity and profitability in 2002.

In support of these strategic initiatives, Zellers' marketing program for 2002 will emphasize its commitment to continuing improvements in the shopping experience for Canadian Moms, through increased use of mass media advertising.

Zellers will again hold to its strategy in 2002, while continuing to refine and build its brand.

Financial Services

Business Profile

The Financial Services division's primary function is to manage HBC's credit card portfolios for the Bay and Zellers. Processing and servicing of the portfolio is handled by a single system, managed in Toronto. The division operates three regional call centres in Vancouver, Toronto and Montreal. At January 31, 2002, there were 3.3 million active customer accounts in the combined portfolios, approximately 1.6 million Bay cardholders and 1.7 million Zellers cardholders.

Financial Services' main activity is the issuance of temporary revolving lines of credit to assist customers in purchasing HBC merchandise and services. Included in this activity is credit product development, new accounts acquisition, portfolio risk management, marketing, and account management consisting of customer services and collection activities.

Strategy

The strategy of Financial Services is to be the settlement vehicle of choice for HBC's customers and its store banners.

Three key strategic objectives support the strategy, and include:

- Organizing the credit program to supply the banners with credit data, allowing for effective targeted-marketing programs and providing ease of shopping that is more rewarding.
- Increasing the cardholder base by offering differentiated credit card products. For example, offering the proprietary Hudson's Bay Company card and a Visa product marketed, owned and financed by the Canadian Imperial Bank of Commerce, as well as alternate financing arrangements.
- Operating credit services to realize a profit level that meets corporate hurdle rates.

Financial Performance

(millions of dollars)	2001	2000	1999
Sales and revenue*	302	295	309
EBIT*	148	132	124
Credit card receivables at year-end	487	500	484

* Excludes net gains on the securitization of credit card receivables in 2001.

Key performance measures for the last three years were as follows:

	2001	2000	1999
Average balance per active customer account (dollars)	400	378	370
Average volume per active account (dollars)	743	700	688
Average monthly active accounts (millions)	3,198	3,332	3,338
Net bad debt expense for year (millions of dollars)	69	61	76
Gross bad debt expense as a percentage of average balances (%)	7.7	8.4	9.5
Percent of receivables 30 days past due or less (%)	94.9	94.8	94.1

Sales on Hudson's Bay Company's credit card have been fairly consistent, representing 27.4% of total retail sales of the major retail divisions in 2001, 27.2% in 2000 and 27.6% in 1999. The year-end balance of credit card receivables totalled $487 million or 2.6% below 2000's receivable balance of $500 million, which was 3.3% over 1999's level of $484 million. Excluding the adjustments to account for the securitization of credit card receivables, the receivable balance was $441 million, or an 11.8% decrease from the 2000 year-end level.

Over the past five years, the Company has sold to independent Trusts, with limited recourse, undivided co-ownership interest in certain of its credit card receivables totalling $900 million. In 2001 and 1999, the Company sold $100 million and $300 million of receivables for securitization. The securitized credit card receivables are not included in the year-end receivable balances disclosed in the above table. The financing activities section describes in more detail the securitization of HBC's credit card receivables.

Revenue and EBIT of the Financial Services division are included with the results of the major retail divisions, the Bay and Zellers. Financial Services revenues in 2001 were $302 million, compared with $295 million in 2000 and $309 million in 1999. The cost of the funding related to the securitization programs is deducted from the total service charge revenues earned on the portfolio.

EBIT from Financial Services in 2001 was $148 million, $16 million over 2000's EBIT of $132 million and $24 million above the 1999 level. EBIT growth in 2001, compared to 2000, reflected the combination of emphasis on cross-shopping initiatives, expense management, portfolio risk management and the impact of lower securitization costs.

The average balance per active customer account was up, and the average monthly active accounts were down as a result of both credit card reciprocity introduced in late 2000, and the new Hudson's Bay Company credit card, launched in October 2001, which served to consolidate card activity on one proprietary card. Gross write-offs in 2001 of $98.0 million were lower than 2000 by $7.3 million reflecting the impact of new authorization strategies implemented in 1999 and 2000. Net bad debt expense in 2001 of $68.6 million was $7.7 million above the 2000 level due to a shortfall in HBC's bad debt recoveries from collection agencies.

The quality of the credit card receivable portfolio at January 31, 2001, was stable compared to the 2000 year-end, with 94.9% of the portfolio classified as 30 days past due or less which is an improvement in aging over the last two years.

Operating Highlights for 2001

During 2001, Financial Services implemented a number of initiatives in support of its strategic objectives. Highlights of the key initiatives include:

- Launch of the Hudson's Bay Company credit card, promoting cross-shopping within the HBC family of stores, as well as providing customer convenience and loyalty.
- Initiated the acceptance of the Hudson's Bay Company, Bay and Zellers credit cards at Esso stations throughout Canada.
- Centralized fraud detection and follow-up procedures for Credit and the Hbc.com businesses.
- Developed profit-based credit line, collection and bankruptcy prediction models.
- Linked together call centres through call routing technology and implemented a one point of contact strategy for all Credit and Hbc.com inquiries.
- Installed a collection management system to better measure and reallocate accounts to review collection agencies.

Outlook for 2002

The outlook for 2002 is dependent on employment levels, which directly affects charge-off rates and bankruptcies, and the economic outlook, which directly impacts store sales and credit volume. There is the expectation of continued low interest rates, which will have a positive effect on financing the portfolio.

Overview of Financial Condition

Net Assets

The following summary shows details of the Company's net assets as financed by debt and equity for the last three years:

(millions of dollars)	2001	2000	1999
Net assets:			
The Bay	1,169	1,207	1,155
Zellers	1,561	1,636	1,740
Other	372	231	219
	3,102	3,074	3,114
Financed by:			
Debt	457	694	794
Future income taxes	116	77	54
Equity	2,529	2,303	2,266
	3,102	3,074	3,114
Debt:equity ratio	0.18:1	0.30:1	0.35:1

In the above table, net assets for the Bay and Zellers include credit card receivables that are also included in the net assets of Financial Services, amounting to $487 million at January 31, 2002, $500 million at January 31, 2001, and $484 million at January 31, 2000.

Total net assets at January 31, 2002, of $3,102 million were 0.9% above last year's net asset level reflecting the effect of lower trade payables, offset in part by reduced inventories at January 31, 2002, reflecting better inventory processes and the impact of new technologies implemented over the last few years. Other net assets of $372 million increased $141 million from the 2000 year-end level, reflecting mainly lower accounts payable, increased income taxes recoverable and higher pension assets.

Cash Flows

Cash and cash equivalents at January 31, 2002, totalled $331 million, compared to $86 million at the 2000 year-end. Cash and cash equivalents represent short-term deposits.

Cash inflow before financing activities totalled $116 million in 2001 and $197 million in 2000. For 2001, cash generated from operating activities of $189 million was $278 million below the 2000 cash inflow of $467 million. Cash profits in 2001 were lower by $83 million, reflecting the impact of lower earnings generated on a reduced sales volume. The increase in the working capital movement compared to the working capital change in 2000 was due mainly to lower trade payables, reflecting primarily the timing of payments at the end of the 2001 fiscal year, offset in part by reduced inventories of $86 million. During 2001, the Company invested $144 million in capital expenditures, compared to $242 million in 2000, and received $100 million from the securitization of credit card receivables.

Cash and cash equivalents in 2001 increased by $245 million due mainly to the cash inflow before financing activities of $116 million and the $194 million of net proceeds received from issuing the 7.5% convertible unsecured subordinated debentures, offset partly by $10 million to repurchase common shares and dividend payments in 2001 of $39 million.

Financing Activities

The Company obtains funds through various avenues. Funds are generated through cash from operations and improvements in working capital, particularly reductions in inventories. The Company also has the ability to reduce capital spending to fund debt requirements. Other principal sources of liquidity are: the issuance of long-term debentures, the securitization of credit card receivables, the sale and leaseback of real estate properties and a syndicated loan arrangement with a group of lenders. In addition, the Company can obtain funds through the issuance of equity subordinated debentures, convertible subordinated debentures and shares, and various operating credit facilities. At January 31, 2002, the Company had not drawn on its committed $480 million (to August 2003) credit operating facility, compared to a $120 million utilization of the facility at January 31, 2001. In addition, at January 31, 2002, the Company had $331 million of short-term marketable securities compared to $86 million at January 31, 2001.

At January 31, 2002, the Company's total debt of $457 million, after deducting $325 million in investments and short-term deposits, was $237 million below the 2000 year-end debt level of $694 million. Included in the 2001 year-end debt level was $782 million of long-term debt, including $93 million due within one year. The decline in debt levels in 2001 was due mainly to the receipt of proceeds from the securitization of an additional $100 million of credit card receivables in the second quarter, and net proceeds of $194 million from the issuance in November 2001 of the 7.5% convertible unsecured subordinated debentures.

Over the last five years, the Company has sold $900 million of credit card receivables to independent Trusts under its securitization program. Under the securitization program, the independent Trusts have acquired co-ownership interests in specified pools of receivables, while HBC and Zellers have retained the unsold interest in the pools. Under the co-ownership agreements, HBC and Zellers receive collections from the receivables until the earlier of a scheduled liquidation commencement date and the occurrence of certain amortization events.

Amortization events include covenant non-compliance by the Company (subject to applicable cure periods); Company insolvency events; a reduction in the aggregate amount of receivables below specified minimum amounts; rating reductions below specified minimums; or a failure of the receivables to meet certain minimum performance levels.

The scheduled liquidation commencement dates for the existing $900 million of co-ownership interests are January 31, 2004 (as to $300 million), January 31, 2005 (as to $200 million) and March 31, 2006 (as to $400 million). At the time of liquidation or an amortization event for a co-ownership interest, a portion of the collections otherwise received by the Company will be remitted to the Trusts. The liquidation of co-ownership interests will take a period of time to be completed. In the meantime, the Company may arrange for replacement financings either by selling additional co-ownership interests in the pool, or by issuing debt or through other financings.

The Company's debt:equity ratio at January 31, 2002, was 0.18:1 compared to last year's ratio of 0.30:1. If the Company had financed its business by issuing $900 million of debt on the security of its credit card receivables, rather than by selling undivided co-ownership interests in the receivables, then the Company's debt:equity ratio at January 31, 2002, would have been 0.54:1.

During 2001, the Company sold $160 million of 7.4% unsecured debentures maturing April 2006, filed a base shelf prospectus with Canadian provincial regulators which qualifies for the issuance of up to an aggregate $500 million principal amount of debt securities of various types, sold $100 million of 7.38% medium term notes maturing August 2005, and on November 26, 2001, issued $200 million of 7.5% convertible unsecured subordinated debentures maturing on December 1, 2008, which will be used in part to repay the equity subordinated debentures in April 2002. The Company also purchased 646,400 common shares at an aggregated cost of $10 million. All of the shares were cancelled and the excess of the carrying value over the purchase price of $3 million was transferred to contributed surplus.

Utilization of the Company's committed credit operating facility of $480 million was lower during 2001 compared to the 2000 year, a reflection of improved inventory management and the convertible unsecured subordinated debenture and securitization financings completed in the year.

Under the syndicated bank loan agreement, the Company must comply with two financial ratios on a quarterly basis. The following table shows these financial ratios for HBC in 2001 which are significantly better than the required levels as indicated therein.

Ratio	2001	Required
Debt:Equity	0.18:1	0.9:1
Earnings coverage on interest expense	3.46:1	2.00:1

Foreign exchange and floating rate interest rate risks are managed by forward hedges, swaps and caps under guidelines established and reviewed periodically by the Board of Directors. At January 31, 2002, the Company had US$42 million of forward foreign exchange contracts and $150 million of interest rate swaps.

The 2001 year-end total long-term debt comprised $782 million at fixed interest rates. The Company also has in place $150 million of interest rate swaps on floating rate debt that may be incurred in the future at an average rate of 5.8%. The effect of these interest rate swaps is that increases in interest rates above the average swapped rate would not have a significant impact on the Company's interest expense.

In April 2002, 7.0% equity subordinated debentures in the range of $196 million to $245 million, and $92 million of 6.25% series C debentures will mature. In February 2002, under the normal course issuer bid, the Company purchased $4 million of the equity subordinated debentures. The debentures will be paid in cash with the net proceeds of $194 million from the 7.5% convertible unsecured subordinated debentures forming part of the funding.

The Company's debt is rated by Standard and Poor's Canada (S&P) and by the Dominion Bond Rating Service (DBRS). On November 2, 2001, S&P and DBRS confirmed the outstanding ratings for the Company with the trend lowered to negative. A summary of the Company's ratings is provided in the following table:

	November 2, 2001		March 22, 2001		2000	
	Ratings	Outlook	Ratings	Outlook	Ratings	Outlook
S&P:						
Unsecured debentures	BBB-	Negative	BBB-	Stable	–	–
Commercial paper	A-3	Negative	A-3	Stable	–	–
DBRS:						
Unsecured debentures	BBB (low)	Negative	BBB (low)	Stable	BBB	Negative
Commercial paper	R-2 (mid)	Negative	R-2 (mid)	Stable	R-2 (high)	Stable

Capital Expenditures

Capital expenditures, including software expenditures, were $182 million in 2001, $282 million in 2000 and $172 million in 1999. Of the 2001 capital expenditures, $70 million was incurred at the Bay, $62 million at Zellers and the majority of the remainder was invested in information systems. Capital expenditures, including software expenditures, are forecast to be about $165 million in 2002. Zellers plans to open two new stores, expand five stores, renovate one store and relocate four stores. The Bay expects to open up to 17 new Home Outfitters stores and renovate three existing stores. The Company will continue to invest in critical information systems such as the Retek merchandising system and Oracle's financial Enterprise Resource Planning (ERP) system. The Company's long-term strategies for each of its major retail divisions are to add profitable stores that improve market penetration and accessibility to its customers, and to renovate, enlarge and upgrade existing stores as required. The Company remains committed to continuing to expand in communities where there are suitable market opportunities and will close unprofitable or underperforming stores.

Retail Properties

The number and aggregate gross areas in square feet of the Company's retail stores and its distribution centres at the last three year-ends were as follows:

	Number			Square Feet (thousands)		
	2001	2000	1999	2001	2000	1999
Retail stores	551	542	535	47,807	47,494	46,124
Distribution centres	11	10	9	3,530	3,694	3,580

The Bay and Zellers' operating review sections describe the properties in each business. The Company also owns a chain of 106 small value-price general merchandise stores located in western Canada. In addition to those properties, the Company owns three distribution centres and The Simpson Tower, a 32-floor office building in Toronto.

Total Taxes and Tariffs

Over the last three years, the Company incurred taxes and tariffs totalling $356 million in 2001, $412 million in 2000 and $394 million in 1999. Of the $356 million incurred in 2001, 16.6% represented income taxes, compared to 27.4% in 2000 and 24.4% in 1999. The largest component of taxes and tariffs were charges by municipalities across Canada for realty and business taxes.

Risk Management

Exposure to various risks is an integral part of carrying on business. The following table sets out major identified risk factors that are normal in the retail business and lists the principal external and internal Retail Risk Factors that directly influence these five elements.

	Retail Risk Factors	
Elements	External	Internal
Sales and revenue	Competitors Economy Inflation Weather Consumers' changing tastes and values	Customer service Marketing strategies Store openings and closings Inventory in-stock
Gross profit rate	Competitors Consumer price sensitivity	Buying/pricing Control of inventories Sales blend Stock shortages
Expense rate	Inflation Taxes Hydro and energy costs	Advertising Occupancy costs Payroll
Financial Services earnings	Bad debts Card competition Government regulation	Card marketing Service charge rates
Interest expense	Credit rating Interest rates Government policies	Debt levels Foreign exchange exposure Fixed/floating blend Short-/long-term blend

Competitive risk and the economy are the largest of the above risk factors. The Company monitors its market share and its place in the retail market, and adjusts strategy as appropriate. Typical adjustments might include re-locating stores, reviews of merchandise offerings or pricing, and changing marketing programs. While many competitors sell some of the same products as HBC, no single retail chain covers the wide range of DSTM commodities that are sold in the HBC family of stores. The Company has the option to change commodity allocation among store formats, and also within each store, in a relatively short time frame, as customer demand shifts, either nationally or in a particular market.

No company can fully protect against unknown events in the economy. HBC sets budgeted inventory levels and promotional activity to be in accord with predicted Gross Domestic Product and consumer spending changes. Capital spending can also be adjusted when retail sales growth changes.

Financial Services earnings comprise a significant portion of overall HBC earnings. Bad debt expense and competition from other types of cards are the largest risks faced by the division. HBC uses sophisticated software and behavioural scoring tables to manage bad debt risks. The Financial Services division meets card competition through in-store and other marketing programs, as well as by continuously improving the benefits available to cardholders.

Capital management risk, which involves HBC's access to capital markets and level of interest expense, is discussed under "Financing Activities." The Company must deal with foreign exchange risk because a significant portion of merchandise purchases are paid for in U.S. dollars; accordingly, unforeseen shifts in exchange rates impact the gross margin on imported goods. HBC uses forward purchase contracts to reduce the impact of movements in the Canadian dollar.

The Company has a number of integrated programs in place to mitigate the financial impact from property losses or third party liability claims; each year HBC reviews the level of risk that will be retained. These programs are secured by conventional insurance contracts. The total cost of risk management, including insurance premiums, fees, legal and self-retained losses, was approximately $15 million in 2001, $15 million in 2000 and $13 million in 1999.

Recently Issued Accounting Standards

For the 2002 fiscal year, two new standards issued by the Canadian Institute of Chartered Accountants (CICA) will be adopted by the Company. In September 2001, the CICA issued a new standard (Section 3062) for the recognition, measurement, presentation and disclosure of goodwill and other intangible assets. The CICA also approved a new standard (Section 3870) on the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The standards are effective for fiscal years beginning on or after January 1, 2002. For year 2002, under CICA Section 3062, goodwill must be tested for impairment on an annual basis. At January 31, 2002, goodwill of $160 million was determined not to be impaired. The Company will also no longer amortize its existing goodwill, resulting in lower annual amortization expense of $11 million. In addition, the Company does not anticipate a material effect on its year 2002 financial position or results of operations from implementing the new CICA Section 3870 on stock-based compensation.

Forward Looking Statements

A number of matters discussed in this Management's Discussion and Analysis and elsewhere in the Annual Report that are not historical or current facts deal with potential future circumstances and developments. The discussion of such matters is qualified by the inherent risks and uncertainties surrounding future expectations generally, and also may materially differ from the Company's actual future experience involving any one or more of such matters.

Management's Statement on Financial Reporting

The Management of Hudson's Bay Company is responsible for the preparation, presentation and integrity of the consolidated financial statements contained on pages 31 to 33 of this annual report and of financial information, discussion and analysis consistent therewith, presented on other pages. The accounting principles which form the basis of the consolidated financial statements and the more significant accounting policies applied are described in note 1 on page 34. Where appropriate and necessary, professional judgments and estimates have been made by Management in preparing the consolidated financial statements.

In order to meet its responsibility, Management has established a code of business conduct and maintains accounting systems and related internal controls designed to provide reasonable assurance that assets are safeguarded and that transactions and events are properly recorded and reported. An integral part of these controls is the maintenance of programs of internal audit coordinated with the programs of the external auditors.

Ultimate responsibility for financial reporting to shareholders rests with the Board of Directors. The Audit Committee of the Board, all members of which are outside and unrelated directors, meets quarterly with Management and with internal and external auditors to review audit results, internal accounting controls and accounting principles and procedures. Internal and external auditors have unlimited access to the Audit Committee. The Audit Committee recommends to the Board the accounting firm to be named in the resolution to appoint auditors at each annual meeting of shareholders. The Audit Committee reviews the consolidated financial statements and the other contents of the Annual Report with Management and the external auditors and reports to the directors prior to their approval for publication.

KPMG LLP, independent auditors appointed by the shareholders, express an opinion on the fair presentation of the consolidated financial statements. They meet regularly with both the Audit Committee and Management to discuss matters arising from their audit. The Auditors' Report to the Shareholders is presented on this page.

George Heller
President and Chief Executive Officer

Michael Rousseau
Executive Vice-President and Chief Financial Officer

Toronto, Canada
March 7, 2002

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Hudson's Bay Company as at January 31, 2002, and January 31, 2001, and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2002, and January 31, 2001, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants

Toronto, Canada
March 7, 2002

Consolidated Statements of Earnings

Years ended January 31 (thousands of dollars)	Notes	2002	2001
Sales and revenue			
The Bay		2,667,262	2,702,998
Zellers		4,693,027	4,606,743
Other		85,524	90,231
		7,445,813	7,399,972
Earnings before interest expense and income taxes			
The Bay		65,740	161,653
Zellers		134,035	157,129
Other		(14,260)	(18,804)
		185,515	299,978
Interest expense	16	(53,648)	(61,558)
Earnings before income taxes		131,867	238,420
Income taxes	3	(59,117)	(113,162)
Net earnings		72,750	125,258
Earnings per share – basic	17	$ 0.85	$ 1.60
Earnings per share – diluted	17	$ 0.84	$ 1.46

Consolidated Statements of Retained Earnings

Years ended January 31 (thousands of dollars)	Notes	2002	2001
Retained earnings at beginning of year		633,712	544,809
Net earnings		72,750	125,258
Dividends and accretion – subordinated debentures	9	(12,875)	(10,508)
Dividends – common shares		(25,283)	(25,847)
Retained earnings at end of year		668,304	633,712

Consolidated Balance Sheets

January 31 (thousands of dollars)	Notes	2002	2001
Current assets			
Cash in stores		7,392	7,649
Short-term deposits		331,350	86,142
Credit card receivables	2	487,281	499,690
Other accounts receivable		73,494	103,302
Merchandise inventories		1,489,049	1,575,306
Prepaid expenses and other current assets		157,149	100,150
		2,545,715	2,372,239
Secured receivables	4	11,838	18,415
Fixed assets	5	1,292,519	1,336,348
Goodwill		160,436	180,069
Pensions	6	334,641	290,535
Other assets	7	189,049	178,444
		4,534,198	4,376,050
Current liabilities			
Short-term borrowings	8	24,188	22,000
Trade accounts payable		391,808	496,354
Other accounts payable and accrued expenses		576,335	584,114
Long-term debt due within one year	8	92,620	125,703
		1,084,951	1,228,171
Long-term debt	8	688,939	674,575
Employee future benefits other than pensions	6	58,579	58,621
Future income taxes	3	173,105	111,336
Shareholders' equity			
Subordinated debentures	9	400,507	201,466
Capital stock	10	1,418,995	1,430,376
Contributed surplus	10	40,818	37,793
Retained earnings		668,304	633,712
		2,528,624	2,303,347
		4,534,198	4,376,050

On behalf of the Board:

L. Yves Fortier, C.C., Q.C.
Director

Peter W. Mills, Q.C.
Director

Consolidated Statements of Cash Flows

Years ended January 31 (thousands of dollars)	Notes	2002	2001
Operating activities			
Earnings before income taxes		131,867	238,420
Net cash income taxes		(43,397)	(68,459)
Items not affecting cash flows:			
Amortization	15	196,788	186,898
Pension credits		(12,940)	(28,231)
Net gain on sale of credit card receivables	2	(26,335)	–
Net change in operating working capital	13	(56,731)	138,505
Net cash inflow from operating activities		189,252	467,133
Investing activities			
Capital expenditures		(143,770)	(241,498)
Fixed asset dispositions		26,922	11,914
Other assets		(42,938)	(40,474)
Sale of credit card receivables	2	100,000	–
Miscellaneous		(13,588)	68
Net cash outflow for investing activities		(73,374)	(269,990)
Net cash inflow before financing activities		115,878	197,143
Financing activities			
Long-term debt:			
Issued		760,000	605,119
Redeemed		(778,719)	(656,720)
		(18,719)	(51,601)
Increase (decrease) in short-term borrowings		2,188	(7,597)
Subordinated debentures issued	9	193,500	–
Capital stock:			
Common shares issued		1,715	1,202
Common shares purchased for cash and cancelled		(10,071)	(54,950)
Dividends paid – subordinated debentures	9	(14,000)	(14,000)
Dividends paid – common shares		(25,283)	(25,847)
Net cash inflow from (outflow for) financing activities		129,330	(152,793)
Increase in cash and cash equivalents		245,208	44,350
Cash and cash equivalents at beginning of year		86,142	41,792
Cash and cash equivalents at end of year		331,350	86,142

Note 1. Accounting Principles and Policies

These consolidated financial statements have been prepared by Management in accordance with accounting principles generally accepted in Canada. The significant accounting policies are as follows:

a) Fiscal Year

The Company reports its year-end as January 31. Retail sales and related activities are reported on a retail calendar basis, ending on the nearest Saturday prior to January 31. Each of the years ended January 31, 2002, and 2001, contains 52 weeks.

b) Foreign Currency Translation

Foreign currency assets and liabilities, which primarily are components of debt and accounts payable, are translated into Canadian dollars at exchange rates in effect at the balance sheet dates.

Foreign currency costs and earnings, mainly interest, are translated into Canadian dollars at exchange rates in effect at the time they are incurred or earned.

c) Income Taxes

Income taxes are determined using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the Company's assets and liabilities and their corresponding tax basis. Future taxes are measured using tax rates expected to apply when the asset is realized or the liability settled.

d) Credit Card Receivables

In accordance with accepted retail industry practice, credit card receivables, of which a portion will not become due within one year, are classified as current assets. They represent open-ended revolving credit card customer accounts and are shown after deducting an allowance for doubtful accounts. Reserves for estimated losses on receivables sold with limited recourse under securitization agreements are classified as other accounts payable.

Effective July 1, 2001, the Company prospectively adopted the new recommendations issued by the Canadian Institute of Chartered Accountants under Accounting Guideline 12 "Transfer of Receivables." Under the new policy, the Company must recognize gains or losses on transfer of receivables that qualify as sales and to recognize as assets certain financial components that are retained as a result of such sales, which consist primarily of the retained interest in receivables sold and the retained rights to future interest income from the serviced assets. Retained interests are initially recorded at an allocated carrying amount, which is estimated based upon the present value of the expected future cash flows, calculated using Management's best estimates of key assumptions about account repayment rates, securitization interest expense rates, discount rates and other factors necessary to derive an estimate of fair value over the receivables' expected life of 19 months. Subsequently, retained interests are evaluated for other than temporary impairments. The initial gain on sale of credit card receivables is reduced by the fair value of the service liability estimated to manage the securitized portfolio.

e) Cash and Cash Equivalents

Cash and cash equivalents consist of short-term deposits with maturities of less than three months. Cash in stores is considered restricted, as it is required as a cash float for store operations.

f) Merchandise Inventories

Merchandise inventories are carried at the lower of cost and net realizable value less normal gross profit margins. The cost of inventories is determined principally on an average basis by the use of the retail inventory method.

g) Fixed Assets

Fixed assets are carried at cost. The costs of buildings (excluding the office tower noted below), equipment, equipment held under capital leases and leasehold improvements are amortized on the straight-line method over their estimated useful lives. The cost of property for sale or development is not amortized, since it represents either land or vacant properties.

The amortization periods applicable to the various classes of fixed assets are as follows:

Asset	Amortization Periods
Buildings	20–40 years
Equipment	3–12½ years
Equipment held under capital leases	5–8 years
Leasehold improvements	10–40 years

Buildings acquired before February 1, 1995, are being amortized over the remainder of 50-year periods. Buildings include an office tower, the cost of which is being amortized on the sinking fund method at a rate of 3% over a 40-year period.

h) Goodwill

Goodwill comprises the unamortized balance of the excess of the cost to the Company over the fair value of its interest in the identifiable net assets of Zellers Inc., Towers Department Stores Inc. and Kmart Canada Co., at their respective dates of acquisition. These balances have been amortized on the straight-line method over periods of 40 years, 20 years and 20 years, respectively.

Goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any permanent impairment would be written off against earnings.

i) Employee Future Benefits

The Company maintains both defined contribution and defined benefit pension plans. The cost of defined benefit plans is actuarially determined using the projected benefit method prorated on services and Management's best estimate of expected investment performance, salary escalation and retirement ages of employees. For purposes of calculating the expected return on plan assets, those assets are recorded at fair market value.

Employee future benefits other than pensions represent medical and dental care and life insurance commitments to certain employees and retirees of acquired companies, long- and short-term disability payments, severance and termination payments and compensated absences. The Company accrues its obligations under these plans net of any plan assets.

j) Other Assets

Other assets include systems development costs which are amortized on the straight-line method over periods of up to eight years.

k) Stock-Based Compensation Plans

The Company has six stock-based compensation plans, and these are described in note 11. Compensation expense is recorded under the two stock ownership plans, the share appreciation rights agreement and the phantom stock plan. No compensation expense has been recorded under the stock option plans. Amounts loaned to employees under the senior executive share purchase plan and paid by employees on exercise of stock options are included in capital stock.

l) Off Balance Sheet Financial Instruments

To hedge its interest rate risks, the Company utilizes interest rate swaps, forward rate agreements and caps. Accrued interest receivable and payable under the interest rate swaps and forward rate agreements are included in other accounts receivable or other accounts payable. The up front fees paid under interest rate caps are amortized to interest expense on the straight-line method over the terms of the related contracts and the unamortized amounts are included in other assets.

m) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

n) Comparative Figures

Where necessary, certain of last year's figures have been reclassified to conform with this year's presentation. Last year's sales and revenue figures have been reclassified to reflect changes in generally accepted accounting principles for reporting licensed revenues. The reclassification had no impact on earnings.

Note 2. Credit Card Receivables

January 31 (thousands of dollars)	2002	2001
Managed credit card portfolio	1,340,572	1,299,690
Securitized receivables	(900,000)	(800,000)
Retained interest in receivables sold	46,709	–
Net credit card receivables	487,281	499,690
Managed allowance for doubtful accounts	29,906	30,718

Over the last five years, the Company has sold with limited recourse, undivided co-ownership interests in $900 million of its credit card receivables to independent Trusts under its securitization program. Under the securitization program, the independent Trusts have acquired co-ownership interests in specified pools of receivables, while HBC and Zellers have retained the unsold interest in the pools. Under the co-ownership agreements, HBC and Zellers receive collections from the receivables until the earlier of a scheduled liquidation commencement date and the occurrence of certain amortization events. The Company services these accounts and pays to the Trusts the portion of service charge revenues derived from the sold co-ownership interests equal to the Trusts' stipulated share thereof.

Amortization events include covenant non-compliance by the Company (subject to applicable cure periods); Company insolvency events; a reduction in the aggregate amount of receivables below specified minimum amounts; rating reductions below specified minimums; or a failure of the receivables to meet certain minimum performance levels.

The scheduled liquidation commencement dates for the existing $900 million of co-ownership interests are January 31, 2004 (as to $300 million), January 31, 2005 (as to $200 million) and March 31, 2006 (as to $400 million). At the time of liquidation or an amortization event for a co-ownership interest, a portion of the collections otherwise received by the Company will be remitted to the Trusts. The liquidation of co-ownership interests will take a period of time to be completed. In the meantime, the Company may arrange for replacement financings by selling additional co-ownership interests in the pool or by issuing debt or through other financings.

The following table provides information on earnings derived from the financial services business including net gains on sale of receivables to the Trusts:

January 31 (thousands of dollars)	2002	2001
Profit on service charges and other revenue	185,345	179,330
Securitization expense	(37,102)	(47,142)
Net gain on sale of credit card receivables	26,335	–
Net financial services earnings	174,578	132,188
Managed net charge-off expense included above	68,583	60,902

Net gain on sale of credit card receivables includes $12 million of amortization on $32 million of service liability initially recognized in the year ended January 31, 2002. The balance of the service liability at January 31, 2002, was $20 million. Cash proceeds from new transfers were $100 million and proceeds from collections were $1,038 million for the year ended January 31, 2002.

The table below shows the key economic assumptions used in measuring the Company's right to interest income due on sold receivables, called an interest only strip, and securitization gains based on the current fair value of future cash flows. The table also displays the sensitivity to adverse changes in the following assumptions:

		Effects of Adverse Changes (in millions)	
	Assumptions	10%	20%
Yield (annual rate)	25.2%	5.8	11.7
Average payment rate (monthly)	17.7%	0.2	0.5
Net charge-off (annual rate)	5.4%	1.3	2.6
Securitization expense rate	4.3%	0.9	1.7
Discount rate	14.5%	0.1	0.3

Note 3. Income Taxes

The major components of income tax expense and the income tax rates for the years ended January 31, 2002, and January 31, 2001, are as follows:

Years ended January 31 (thousands of dollars)	2002	2001
Current tax expense	13,323	90,381
Future income taxes	45,794	22,781
Income tax expense	59,117	113,162
Average statutory income tax rates	41.4%	43.4%

A comparison of a nominal tax provision at these rates with the amounts shown in the Consolidated Statements of Earnings is as follows:

Years ended January 31 (thousands of dollars)	2002	2001
Earnings before income taxes	131,867	238,420
Nominal tax provision at average statutory income tax rates	54,593	103,474
Change in income taxes resulting from:		
Large corporations tax	8,460	5,917
Net capital gains and losses	(193)	26
Other (primarily non-deductible items)	5,330	15,772
	68,190	125,189
Adjustments in future income tax balances	(9,073)	(12,027)
Income tax expense	59,117	113,162

The components of future income tax balances are as follows:

January 31 (thousands of dollars)	2002	2001
Future income taxes – current:		
Deferred items	20,523	33,318
Tax losses carried forward	43,198	8,517
	63,721	41,835
Valuation allowance	(6,645)	(7,648)
	57,076	34,187
Future income taxes – non-current:		
Tax losses carried forward	18,142	74,632
Deferred items	18,993	21,160
	37,135	95,792
Valuation allowance	(18,142)	(29,199)
Non-current future income tax assets	18,993	66,593
Pensions	(108,313)	(104,893)
Accrued expenses	(69,523)	(61,703)
Buildings and equipment	(14,262)	(11,333)
	(173,105)	(111,336)

Included in prepaid expenses and other current assets is the current portion of future income taxes amounting to $57,076,000 and $34,187,000 for the years ended January 31, 2002 and 2001, respectively.

The Company has tax losses carried forward of $163 million. Of this total, $60 million is available until January 2005, $51 million until January 2006, and $52 million until January 2009.

Note 4. Secured Receivables

January 31 (thousands of dollars)	2002	2001
Mortgages	3,371	7,316
Employee share ownership plan loans	9,867	14,435
Total secured receivables	13,238	21,751
Less amounts due within one year included in other accounts receivable	(1,400)	(3,336)
	11,838	18,415

Maturities of secured receivables are summarized as follows:

Years ending January 31 (thousands of dollars)	
2003	1,400
2004	1,136
2005	1,016
2006	841
2007	1,386
Subsequent periods	7,459
	13,238

The mortgages are secured by property and the employee share ownership plan loans are secured by shares of the Company. The average interest rate on secured receivables is 1.0% at January 31, 2002, and 0.8% at January 31, 2001. Under certain conditions, the amounts due may be received prior to maturity.

Note 5. Fixed Assets

	2002			2001		
January 31 (thousands of dollars)	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	97,130	–	97,130	99,774	–	99,774
Buildings	394,849	(160,750)	234,099	433,767	(195,027)	238,740
Equipment	1,471,266	(823,688)	647,578	1,483,889	(817,206)	666,683
Equipment held under capital leases	8,131	(6,643)	1,488	8,131	(6,066)	2,065
Leasehold improvements	489,802	(183,267)	306,535	475,678	(159,549)	316,129
Property for sale or development	5,689	–	5,689	12,957	–	12,957
	2,466,867	(1,174,348)	1,292,519	2,514,196	(1,177,848)	1,336,348

Note 6. Employee Future Benefits

The Company has both defined benefit and defined contribution pension plans. Certain retired employees at acquired companies also receive health benefits paid for by the Company. Both the Company and employees contribute in equal amounts to the defined contribution plans. The defined benefit plans are funded by employee contributions as a percentage of salary and by the Company to support the actuarial based pension benefits. The defined pension benefits are based on an average of employees' career earnings.

Aggregate information about the Company plans is in the table below. The information provided does not encompass all benefit plans in the Company, but only those plans for which an actuarial liability exists.

	2002		2001	
January 31 (thousands of dollars)	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Plan assets				
Market value at beginning of year	1,355,979	14,182	1,300,343	13,285
Actual return on plan assets	10,279	507	129,973	897
Employer contributions	27,181	20,603	1,590	22,273
Associate contributions	18,516	–	16,266	–
Benefits paid	(64,225)	(20,603)	(64,523)	(22,273)
Settlement payment	(2,241)	–	(27,670)	–
Market value at end of year	1,345,489	14,689	1,355,979	14,182
Plan obligation				
Accrued benefit obligation at beginning of year	893,148	84,197	855,769	88,640
Total current service cost	42,564	15,892	35,805	14,508
Interest cost	53,487	5,329	69,924	5,509
Benefits paid	(64,225)	(20,603)	(64,523)	(22,273)
Plan amendments	5,503	–	–	–
Actuarial (gains) losses	(9,307)	1,551	21,902	(2,187)
Settlement of obligations	(2,241)	–	(25,729)	–
Accrued benefit obligation at end of year	918,929	86,366	893,148	84,197
Plan surplus (deficit)				
End of year market value less accrued benefit obligation	426,560	(71,677)	462,831	(70,015)
Unamortized net actuarial loss (gain)	44,633	(186)	(14,786)	(2,187)
Unamortized past service cost	5,161	2,374	–	2,671
Unamortized transitional asset	(141,713)	–	(157,510)	–
Accrued benefit asset (liability)	334,641	(69,489)	290,535	(69,531)

Benefit Plan Expense

	2002		2001	
Years ended January 31 (thousands of dollars)	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Company current service cost	24,048	15,892	19,539	14,508
Interest cost	53,487	5,329	69,924	5,509
Market rate return on plan assets	(79,006)	(958)	(93,285)	(897)
Amortization of past service cost	342	297	–	–
Amortization of transitional asset	(15,796)	–	(16,141)	–
Settlement gain	–	–	(8,268)	–
Net (income) expense	(16,925)	20,560	(28,231)	19,120

Actuarial Assumptions

	2002		2001	
Years ended January 31	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Discount rate	6.71%	5.94%	6.5%	6.36%
Expected long-term rate of return on plan assets	7%	6.75%	7%	6.75%
Rate of compensation increase	4%	4%	4%	4%

Note 7. Other Assets

January 31 (thousands of dollars)	2002	2001
Systems development costs	107,459	89,986
Investments	41,658	45,925
Deferred and prepaid rent	30,626	36,960
Debt discount and expense	5,692	3,370
Other	3,614	2,203
	189,049	178,444

Note 8. Debt

January 31 (thousands of dollars)	2002	2001
Short-term deposits	(317,527)	(86,142)
Short-term borrowings	24,188	22,000
Net short-term deposits	(293,339)	(64,142)
Portfolio investments	(30,798)	(42,554)
Long-term debt due within one year	92,620	125,703
Long-term debt	688,939	674,575
Net debt	457,422	693,582

At January 31, 2002, the short-term borrowings comprised bank indebtedness, while at January 31, 2001, short-term borrowings principally comprised notes payable at an average interest rate of 5.9%.

Long-term debt comprises the following:

January 31 (thousands of dollars)	2002	2001
Secured:		
14% mortgage due 2009	4,257	4,547
Capital lease obligations at an average rate of 7.0% and maturing in 2002 and 2003	324	731
	4,581	5,278
Unsecured:		
7.95% debentures series B due June 12, 2001	–	125,000
6.25% debentures series C due April 1, 2002	91,978	125,000
6.25% debentures series D due March 14, 2003	150,000	150,000
6.35% debentures series E due December 1, 2003	150,000	150,000
7.10% debentures series F due May 13, 2004	125,000	125,000
7.38% medium term notes due August 3, 2005	100,000	–
7.40% debentures series G due April 5, 2006	160,000	–
Floating rate debt:		
Syndicated credit facility due August 20, 2003	–	120,000
Total unsecured	776,978	795,000
	781,559	800,278
Less amounts due within one year	(92,620)	(125,703)
	688,939	674,575

The Company has in place a number of interest rate swap agreements at 5.8% on $150 million of floating rate debt that may be incurred in the future. Under these agreements the Company agrees with a counterparty to exchange, at specified intervals and for a specified period, its floating interest for fixed interest calculated on an agreed upon notional principal amount. The use of swaps effectively enables the Company to convert floating rate interest obligations into fixed rate obligations.

All of these agreements have been made with Canadian chartered banks.

Most of the long-term debt issues are subject to cancellation or redemption at the option of the Company at various times or under certain conditions. In addition, a portion of proceeds from any new financing or securitization of accounts receivable is to be used to pay down floating rate debt which may be outstanding at various times.

Maturities of long-term debt are summarized as follows:

Years ending January 31 (thousands of dollars)	
2003	92,620
2004	300,396
2005	125,436
2006	100,499
2007	160,572
Subsequent periods	2,036
	781,559

Note 9. Subordinated Debentures

On November 26, 2001, the Company received $200,000,000, before deducting $6,500,000 in issue costs, on the issuance of 7.5% convertible unsecured subordinated debentures ("convertible debentures") maturing on December 1, 2008. The Company also received on April 6, 1999, $200,000,000, before deducting $6,000,000 in issue costs, on the issuance of 7.0% equity subordinated debentures maturing on April 1, 2002. The equity subordinated debentures are convertible on maturity, at the option of the holder, into the conversion number of common shares of the Company. The 7.5% convertible debentures are convertible at the option of the holder at any time prior to the maturity date. The conversion entitlement allows holders to participate in the potential appreciation of the Company's common share price during the term of the debentures. The 7.5% convertible debentures are convertible at a conversion price of $17.38 per common share being a rate of 57.54 common shares for each $1,000 principal amount of debentures. The 7.0% equity subordinated debenture holders can participate up to a maximum of $18.20 per share based on a reference price of $14.55, being a maximum of $1,251 per $1,000 principal amount of debentures.

The Company has the option, in lieu of delivering common shares upon conversion of the debentures, to pay the conversion value in cash. The 7.5% convertible debentures may not be redeemed prior to December 1, 2005. Thereafter, and on or before December 1, 2006, the debentures may be redeemed by the Company according to a pre-defined formula. Subsequent to December 1, 2006, the Company may redeem the debentures at any time to maturity. The Company also has the right to deliver common shares to satisfy interest payments on the debentures. The debentures have been classified as equity under Shareholders' Equity in the Consolidated Balance Sheets.

The value of the conversion option for the equity subordinated debentures and for the convertible debentures have been estimated to be $8,000,000 and $20,000,000, respectively. The amounts are being accreted for the equity subordinated debentures and for the convertible debentures over a 36-month period and an 84-month period, respectively, until maturity as a charge against retained earnings.

The net charges to retained earnings are as follows:

Years ended January 31 (thousands of dollars)	2002	2001
Dividends accrued	16,754	14,000
Conversion options accreted	3,191	2,667
Income taxes deductible on dividends	(7,070)	(6,159)
Net charge to retained earnings	12,875	10,508
Dividends paid	14,000	14,000

Note 10. Capital Stock

The authorized classes of shares of the Company consist of unlimited numbers of preferred shares and common shares, all without nominal or par value.

There are no outstanding preferred shares. The changes in common shares issued and outstanding during the years ended January 31, 2002, and January 31, 2001, are as follows:

	Number of Shares	Thousands of Dollars
Issued and outstanding at January 31, 2000	74,041,126	1,500,668
Issued:		
Under dividend reinvestment plan	60,795	930
Under stock option plans	16,475	272
Purchased for cash and cancelled	(3,527,600)	(54,950)
Excess of carrying value of shares purchased over purchase price transferred to contributed surplus	–	(16,544)
Issued and outstanding at January 31, 2001	70,590,796	1,430,376
Issued:		
Under dividend reinvestment plan	34,729	566
Under stock option plans	71,375	1,149
Purchased for cash and cancelled	(646,400)	(10,071)
Excess of carrying value of shares purchased over purchase price transferred to contributed surplus	–	(3,025)
Issued and outstanding at January 31, 2002	70,050,500	1,418,995

Weighted average number of common shares outstanding during each of the years ended January 31 are as follows:

2002	70,229,725
2001	71,902,756

Note 11. Stock-Based Compensation Plans

The Company has six stock-based compensation plans: two stock option plans, two stock ownership plans, a share appreciation rights agreement and a phantom stock plan.

a) Stock Option Plans

Under these plans, outstanding options to purchase common shares are at exercise prices equal to the fair market value per share on the dates on which the options were granted. A percentage of the options become exercisable each year and any unexercised options expire at the latest on the 10th anniversary of the date of grant. At January 31, 2002, 5,592,038 common shares are reserved for issuance under these plans.

The changes in outstanding stock options for the years ended January 31, 2002, and January 31, 2001, are as follows:

	2002		2001	
Years ended January 31	Number of Options	Weighted Average Price	Number of Options	Weighted Average Price
Outstanding options at beginning of year	4,603,437	$ 22.49	4,042,994	$ 24.09
Granted	1,019,200	16.66	1,025,900	17.96
Exercised	(71,375)	16.09	(16,475)	16.50
Cancelled or expired	(761,675)	27.85	(448,982)	26.72
Outstanding options at end of year	4,789,587	$ 20.50	4,603,437	$ 22.49
Reserved for future grant at year-end	802,451		1,059,976	
Exercisable	2,324,612	$ 23.54	2,257,537	$ 25.91

The options outstanding at January 31, 2002, range in exercise price from $12.70 to $36.63. Of these exercisable options, 9,975 had an issue price lower than the closing price of $15.00 at January 31, 2002, and consequently were "in the money" as of that date. The table below summarizes the distribution of these options within meaningful ranges and the remaining contractual life.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$12.70 to $15.00	45,875	8.6	$ 13.65	9,975	$ 13.68
$15.01 to $20.00	3,267,668	7.9	16.71	1,067,293	16.45
$20.01 to $25.00	198,150	4.3	20.90	77,025	20.97
$25.01 to $30.00	576,819	4.7	27.43	552,119	27.37
$30.01 to $36.63	701,075	4.0	32.80	618,200	32.84
$12.70 to $36.63	4,789,587	6.8	$ 20.50	2,324,612	$ 23.54

b) Employee Share Ownership Plan

Under this plan, the Company contributes $1 for each $6 contributed by employees to acquire common shares. If earnings per share increase over prescribed targets, the Company contribution may increase to a maximum of $1 for each $1 contributed. Employee and Company contributions are used to purchase common shares in the open market. The Company contribution is included as an expense in the Consolidated Statements of Earnings and amounted to $585,000 in the year ended January 31, 2002, and $673,000 in the year ended January 31, 2001.

c) Senior Executive Share Purchase Plan

Under this plan, certain employees were eligible to apply for a loan to purchase common shares at market value provided that the aggregate amount of all loans outstanding under the plan did not exceed that employee's current annual salary. Loan offers under this plan have been suspended since December 1998. Loans are repayable in monthly installments over a maximum term of 10 years and are included in secured receivables in the Consolidated Balance Sheets (see note 4). The Company pays a bonus in respect of each loan two years after the granting thereof, to be applied to the repayment of the loan. The bonus is an amount which, after adjusting for income taxes in respect of the bonus, is equal to the greater of (1) 10% of the original amount of the loan and (2) the excess, if any, of the original principal amount of the loan over the market value on the bonus date of the shares purchased with the proceeds of the loan. For the year ended January 31, 2002, no bonuses were paid or accrued under this plan, resulting in no expenses being included in the Consolidated Statements of Earnings. The amount included as expense in the Consolidated Statements of Earnings for the year ended January 31, 2001, was $14,073,000. This amount related to the unamortized bonus at January 31, 2001, and the bonus accrued in the year.

d) Share Appreciation Rights Agreement

Under this agreement, the Governor of the Board was granted 62,500 units at an issue price of $28.80 per unit. Of these units, 25% are currently exercisable, 25% are exercisable in 2004 and the remainder on the retirement of the Governor.

Amounts payable are based upon the excess of the market value of the Company's common shares at the exercise date over the issue price of $28.80. As of January 31, 2002, there is no liability under this agreement, since the market price of the Company's common shares is below $28.80.

e) Phantom Stock Plan

Under this plan, Directors of the Company receive their annual retainers in the form of units in the plan, and the Company records a liability. The number of units issued is based upon the market value of the Company's common shares at each allocation date during the year. After retirement, Directors receive a cash payment equal to the market value of their accumulated phantom stock units. The number of units issued each year, multiplied by the market value of common shares at the Company's year-end, is recorded as an expense by the Company; the amounts included in the Consolidated Statements of Earnings were $69,000 in the year ended January 31, 2002, and $476,000 in the year ended January 31, 2001.

Details of common shares issued under the stock option plans during the years ended January 31, 2002, and January 31, 2001, are shown in note 10.

Note 12. Financial Instruments

a) Fair Values of Financial Instruments

The Company has estimated the fair values of its financial instruments as of January 31, 2002, and January 31, 2001, using quoted market values where available and other relevant information. These estimates are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions and do not include other transaction costs and income taxes.

	2002		2001	
January 31 (thousands of dollars)	Book Value	Fair Value	Book Value	Fair Value
Financial assets				
Portfolio investments	38,287	39,126	42,554	42,889
Financial liabilities				
Fixed rate long-term debt	(781,559)	(701,952)	(680,278)	(682,371)
Off balance sheet financial instruments				
Interest rate swaps in a net payable position	–	(6,266)	–	(2,116)

The above table does not include cash, short-term deposits, credit card receivables, other accounts receivable, short-term borrowings, foreign exchange contracts, forward rate agreements, trade accounts payable, other accounts payable and income taxes payable because, due to the immediate or short-term maturity of these financial instruments, their book values approximate fair values. The table also excludes secured receivables and floating rate long-term debt since their book values approximate fair values.

The fair values shown in the above table, which are estimated as at January 31, 2002, and January 31, 2001, change daily as they approach maturity and as interest rates increase or decrease.

These fair values are estimated as follows:

- Portfolio investments – based upon quoted market prices
- Fixed rate long-term debt – based upon discounted future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions
- Interest rate swaps in a net payable or receivable position – based upon estimated net cost of terminating the agreements.

b) Off Balance Sheet Financial Instruments

The Company enters into various interest rate swap and cap agreements with counterparties to manage its exposure to interest rate risks. The Company believes that its exposure to credit and market risks for these financial instruments is negligible.

Notional principal amounts on outstanding interest rate contracts are as follows:

January 31 (thousands of dollars)	2002	2001
Interest rate swaps	150,000	150,000
Interest rate caps	–	70,000

Credit exposure represents the fair value of contracts with a positive fair value. If a counterparty were to fail to meet the terms of a swap or cap agreement, the Company's exposure would be limited to the net amount that otherwise would have been received over the remaining life of the agreement. The notional principal amounts shown in the above table are those on which interest amounts to be exchanged under the contracts are based. The Company enters into these contracts to lower interest rate exposures.

The following table indicates the average interest rates on interest rate swaps:

Years ended January 31	2002	2001
Pay-fixed swaps		
Average pay rate	5.80%	6.12%
Average receive rate	4.23%	5.70%

In addition to interest rate agreements, the Company enters into forward foreign exchange contracts to lock in prices in Canadian dollars for future contracted purchases of merchandise from foreign suppliers. At January 31, 2002, there were US$42 million of outstanding foreign exchange contracts bought forward.

Note 13. Net Change in Operating Working Capital

The net change in operating working capital appearing in the operating activities section of the Consolidated Statements of Cash Flows comprises the following:

Years ended January 31 (thousands of dollars)	2002	2001
Decrease (increase) in:		
Cash in stores	257	831
Credit card receivables	(40,882)	(15,750)
Other accounts receivable	29,808	24,220
Merchandise inventories	86,257	23,389
Prepaid expenses and other current assets	3,034	(5,205)
Increase (decrease) in:		
Trade accounts payable	(104,546)	111,550
Other accounts payable and accrued expenses	(30,659)	(530)
	(56,731)	138,505

Note 14. Leases

a) As Lessee

The Company conducts a substantial part of its operations from leased stores in shopping centres. All shopping centre leases have been accounted for as operating leases.

Rental expenses related to operating leases charged to earnings in the years ended January 31, 2002, and January 31, 2001, were $243,000,000 and $216,000,000, respectively.

The future minimum rental payments required under leases having initial or remaining lease terms in excess of one year are summarized as follows:

Years ending January 31 (thousands of dollars)	Operating Leases	Capital Leases
2003	227,335	320
2004	220,943	18
2005	209,620	
2006	200,536	
2007	187,912	
Subsequent periods	1,230,159	
	2,276,505	338

In addition to these rental payments (and, in a few cases, relatively minor contingent rentals), the leases generally provide for the payment by the Company of real estate taxes and other related expenses.

b) As Lessor

Fixed assets in the Consolidated Balance Sheets at January 31, 2002, and January 31, 2001, include an office tower with a cost of $22,100,000 at January 31, 2002, and January 31, 2001, and related accumulated amortization of $10,724,000 and $10,250,000, respectively. Revenue for the years ended January 31, 2002, and January 31, 2001, include third party rental revenue arising from this property of $5,400,000 and $6,500,000, respectively.

Note 15. Amortization

Years ended January 31 (thousands of dollars)	2002	2001
Deducted in arriving at earnings before interest expense and income taxes:		
Fixed assets	160,336	149,304
Systems development costs	11,961	17,873
Goodwill	10,977	10,977
Other	11,480	6,723
	194,754	184,877
Included in interest expense:		
Debt discount and expense	2,034	2,021
	196,788	186,898

Note 16. Interest Expense

Years ended January 31 (thousands of dollars)	2002	2001
Interest expense on long-term debt	66,630	68,379
Interest income	(11,823)	(6,267)
	54,807	62,112
Less amounts capitalized	(1,159)	(554)
	53,648	61,558

Interest paid in cash amounted to $54,100,000 in the year ended January 31, 2002, and $62,500,000 in the year ended January 31, 2001.

Note 17. Earnings per Share

For 2001 the Company adopted the new Canadian Institute of Chartered Accountants accounting standard under Section 3500, Earnings per Share, retroactively with restatement of the prior period. Under the new standard, diluted earnings per share are computed using the treasury stock method instead of the imputed earnings approach. Basic earnings per share were not impacted by the change.

Basic earnings per share are determined after deducting dividends paid and accrued, net of income taxes and accretion of the conversion options, on the equity subordinated debentures and 7.5% convertible unsecured subordinated debentures. Earnings per share are based on the weighted average number of common shares outstanding during the year (see note 10).

Diluted earnings per share are determined based on the weighted average number of common shares outstanding as recalculated under the assumption that outstanding stock options are exercised or the subordinated debentures are converted.

Diluted earnings per share are calculated only for those stock options, both vested and unvested, that have option prices below the average market price in the reporting period. The number of common shares converted on the equity subordinated debentures is calculated assuming conversion takes place at January 31, 2001, at the then current market price (as defined by the prospectus). The potential common shares that can arise from the conversion of the convertible unsecured subordinated debentures are included in the calculation from the date of issuance of November 26, 2001, and are thus weighted for the period that they were outstanding during the year.

The following table reconciles the numerators and the denominators of the basic and diluted earnings per share computation:

January 31 (thousands of dollars)	2002	2001
Diluted earnings per share calculation:		
Numerator for basic earnings per share	59,875	114,750
Equity subordinated debenture dividends and accretion	10,767	10,508
Numerator for diluted earnings per share	70,642	125,258
Weighted average common shares	70,229,725	71,902,756
Effect of dilutive options outstanding	53,089	28,556
Effect of converting equity subordinated debentures	13,745,700	13,745,700
Denominator for diluted earnings per share	84,028,514	85,677,012
Diluted earnings per share	$ 0.84	$ 1.46

If the new accounting standard was not adopted, the diluted earnings per share would have been S0.84 for the year ended January 31, 2002, and $1.47 for the year ended January 31, 2001.

Note 18. Segmented Information

The Company has three reportable operating segments: the Bay, Zellers and Financial Services. The Bay operates traditional department stores and Zellers operates discount department stores. The Company's Financial Services group finances credit card receivables resulting from sales charged on the Hudson's Bay Company credit card at the Bay and Zellers and provides credit card insurance. Revenues and profits of Financial Services are included in the results of the Bay and Zellers.

Segmented information as at and for the years ended January 31, 2002, and January 31, 2001, is as follows:

	2002					
(thousands of dollars)	The Bay	Zellers	Financial Services	All Other	Eliminations	Total
Earnings						
Sales and revenue	2,667,262	4,693,027	327,987	85,524	(327,987)	7,445,813
EBIT[1]	65,740	134,035	174,578	(14,260)	(174,578)	185,515
Amortization	68,173	90,378	2,579	38,237	(2,579)	196,788
Capital expenditures	62,448	56,627	308	24,695	(308)	143,770
Net assets						
Credit card receivables	245,233	242,048	487,281		(487,281)	487,281
Inventories	520,279	942,097		26,673		1,489,049
Other current assets[2]	17,463	80,958	2,607	79,931		180,959
Fixed assets	471,804	593,344	2,379	224,992		1,292,519
Other assets, net[3]	223,566	197,169	9,204	190,471		620,410
	1,478,345	2,055,616	501,471	522,067	(487,281)	4,070,218
Current liabilities[4]	(309,360)	(494,657)	(9,552)	(154,574)		(968,143)
Net assets	1,168,985	1,560,959	491,919	367,493	(487,281)	3,102,075

1 Earnings before interest expense and income taxes
2 Excluding short-term deposits and current portion of future income taxes
3 Excluding portfolio investments
4 Excluding short-term borrowings and long-term debt due within one year

	2001					
(thousands of dollars)	The Bay	Zellers	Financial Services	All Other	Eliminations	Total
Earnings						
Sales and revenue	2,702,998	4,606,743	295,090	90,231	(295,090)	7,399,972
EBIT[1]	161,653	157,129	132,188	(18,804)	(132,188)	299,978
Amortization	64,993	88,280	2,733	33,625	(2,733)	186,898
Capital expenditures	83,589	113,527	441	44,382	(441)	241,498
Net assets						
Credit card receivables	258,830	240,860	499,689		(499,689)	499,690
Inventories	543,467	1,005,377		26,462		1,575,306
Other current assets[2]	36,230	85,431	7,650	47,603		176,914
Fixed assets	477,918	615,216	3,249	239,965		1,336,348
Other assets, net[3]	215,850	218,975	10,283	121,180		566,288
	1,532,295	2,165,859	520,871	435,210	(499,689)	4,154,546
Current liabilities[4]	(325,360)	(530,324)	(9,496)	(215,288)		(1,080,468)
Net assets	1,206,935	1,635,535	511,375	219,922	(499,689)	3,074,078

1 Earnings before interest expense and income taxes
2 Excluding short-term deposits and current portion of future income taxes
3 Excluding portfolio investments
4 Excluding short-term borrowings and long-term debt due within one year

Note 19. Contingencies

As of January 31, 2002, there are a number of claims against the Company in varying amounts and for which provisions have been made in these consolidated financial statements as appropriate. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims but Management believes that any such amounts would not have a material impact on the business or financial position of the Company.

Five-Year Financial Summary

(For the purpose of comparability, unusual items and related taxes have been eliminated and certain other figures have been restated or reclassified)

Years ended January 31	2002	2001	2000	1999	1998
Number of weeks	52	52	52	52	52
Operations (millions of dollars)					
Total sales and revenue	7,446	7,400	7,194	6,974	6,345
The Bay	2,667	2,703	2,521	2,410	2,454
Zellers	4,693	4,607	4,569	4,472	3,786
EBITDA for the Company	382	487	454	356	333
EBIT – The Bay	66	162	128	52	127
EBIT – Zellers	134	157	150	134	73
EBIT for the Company	186	300	271	187	200
Interest expense	(54)	(62)	(79)	(97)	(88)
Income taxes	(59)	(113)	(96)	(49)	(60)
Net earnings	73	125	96	41	52
Cash from operating activities	189	467	450	157	(100)
Capital expenditures	(144)	(241)	(156)	(293)	(230)
Financial position (millions of dollars)					
Credit receivables	487	500	484	719	645
Inventories	1,489	1,575	1,599	1,656	1,417
Total assets	4,534	4,376	4,274	4,676	3,880
Working capital	1,203	1,171	1,319	1,746	1,559
Debt	457	694	794	1,523	1,240
Shareholders' equity	2,529	2,303	2,266	2,015	1,665
Financial ratios					
Return on average shareholders' equity (%)	2.8	5.5	4.3	2.3	3.0
Interest coverage	3.5	4.9	3.4	1.9	2.3
Debt:equity	0.2:1	0.3:1	0.4:1	0.8:1	0.7:1
Pre-tax margin (%)	1.8	3.2	2.6	1.3	1.7
Share data					
Common shares outstanding (millions):					
Year-end	70.1	70.6	74.0	74.6	62.1
Weighted average	70.2	71.9	74.6	72.2	61.2
Range in common share price (high/low)	20–13	19–13	24–14	35–16	38–24
Price:earnings ratio (year-end)	17.6	10.4	12.7	27.6	30.3
Price:book ratio (year-end)	0.5	0.6	0.5	0.6	1.0
Per common share (dollars)					
EBITDA	5.44	6.77	6.08	4.93	5.44
Net earnings					
Basic	0.85	1.60	1.17	0.57	0.85
Diluted	0.84	1.46	1.11	0.57	0.84
Cash flow from operations	2.69	6.50	6.03	2.18	(1.63)
Shareholders' equity	30.38	29.78	27.91	27.01	26.82
Dividends	0.36	0.36	0.36	0.72	0.72
Statistics					
Gross leasable area (thousands of square feet)					
The Bay	18,000	17,533	17,063	17,028	16,754
Zellers	28,996	29,165	28,287	28,284	23,785
Comparable store sales increase (%)					
The Bay	(4.8)	5.6	4.7	(1.5)	6.1
Zellers	1.1	0.4	2.3	3.1	5.3
Sales per selling square foot					
The Bay	180	188	177	171	173
Zellers	201	199	197	196	196
Average number of associates	71,730	71,700	69,700	71,700	61,500
Canadian economy (% change)					
Department store sales (DSS)	7.9	2.0	6.3	6.0	10.3
Department store type merchandise sales (DSTM)	4.1	5.1	5.6	5.8	7.2

Statement of Corporate Governance Practices

Introduction

The Board of Directors and Management of Hudson's Bay Company are of the opinion that sound corporate governance practices are essential to the well-being of the Company. The Board is committed to maintaining high standards of corporate governance and reviews these practices on a regular basis with respect to their appropriateness. The Company's corporate governance practices, as summarized in this statement, are within the guidelines for effective corporate governance as clarified by the Toronto Stock Exchange.

Mandate of the Board of Directors

The mandate of the Board of Directors of the Company is to supervise the management of the business and affairs of the Company and act in the best interests of the Company. In fulfilling this mandate, the duties and objectives of the Board are to:

- approve long-term objectives and major Company policies and strategies;
- appoint and compensate senior Management, plan for their succession and approve their incentive plans;
- appoint Board Committees and plan for Board succession;
- approve capital and operating budgets, financing plans and other financial matters, including a quarterly review of operations and measurement of progress against budgets;
- approve capital expenditures and asset dispositions in excess of delegated authority;
- approve discontinuance of any significant part of the business and entry into new business ventures; and
- resolve any other matters involving unusual risk or which as a matter of common sense should be referred to the Board.

The Board meets regularly each quarter and, in addition, meets at the call of the Governor, the non-executive Chairman of the Board, when matters of Board significance require attention between regularly scheduled meetings. During the 2001 fiscal year, the Board met eight times.

Toronto Stock Exchange Corporate Governance Guidelines

The Company's approach to corporate governance is substantially in compliance with the Toronto Stock Exchange Corporate Governance Guidelines. The following specifically addresses the Company's corporate governance practices as they relate to each of the Guidelines.

(1) Stewardship of the Company

The Board of Directors of the Company has assumed the responsibility for the stewardship of the Company with responsibility for the following matters:

(a) Adoption of a Strategic Planning Process

The Board approves all long-term objectives and major Company policies and strategies. Management is required to submit to the Board a detailed strategic plan annually. The Board also receives reports updating strategic planning at the regular quarterly Board meetings.

(b) Identification of the Principal Risks and Implementation of Systems to Manage Risks

As part of the strategic planning process and the annual budget approval, the Board considers the principal risks of the Company's business as identified by Management. The Audit Committee also receives updates at regular quarterly meetings concerning risks to the business and recommends to the Board and Management systems necessary to address these risks.

(c) Succession Planning

The Human Resources Committee is responsible for reviewing the Company's organizational structure on a regular basis, at least yearly, monitoring succession planning for Senior Management and, when necessary, making recommendations to the Board concerning potential candidates, available both internally and externally, to fill Senior Executive positions within Management. Training of Senior Executives is completed and updated by Human Resource Training Programs made available as part of a Company education process and Senior Management performance is monitored on a regular basis.

(d) Communications Policy

Communications of major significance to the Company are reviewed by the Board or a Board Committee prior to release. Shareholder inquiries are promptly responded to by the Company. Responsibility for communications with other stakeholders, including suppliers, customers, media or the public, is delegated to the Corporate Communications Department who, together with those officers of the Company directly involved, create and publish timely responses.

(e) Integrity of Internal Control and Management Information Systems

The Audit Committee is responsible for reviewing the scope of the internal audits to be performed each year by the Company's Internal Audit function. The Internal Audit function examines all of the Company's systems and control procedures to determine their adequacy. The Audit Committee also reviews the annual report of the Internal Audit function and reports on this to the Board.

The Audit Committee also reviews the scope of the audit to be performed by the External Auditors, receives the yearly report of the External Auditors and Management's response to that report, and presents the report and response to the Board. This Committee meets privately with the External Auditors at each meeting to review audit concerns and recommendations.

The Audit Committee also reviews Management's statement on financial reporting each year including all annual and quarterly financial statements and recommends these to the Board. This Committee reviews the quarterly Health and Safety, Risk Management, Product Liability and Environmental Reports and recommends these reports to the Board. Finally, the Audit Committee reviews the organizational structure, programs, systems, policies and procedures as they relate to accounting and reports to the Board.

(2) Composition of the Board – Unrelated and Related Directors

The Guidelines recommend that a majority of the Directors of a listed company be "unrelated." For purposes of the Guidelines, an "unrelated Director" is a Director who is independent of Management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding. The Board is currently comprised of 11 Directors. Based on a vigorous application of the definition in the Guidelines the Board is of the opinion that 10 of the current Directors are unrelated.

(3) Identification of Unrelated and Related Directors

George J. Heller, the President and Chief Executive Officer is a related Director.

L. Yves Fortier, the Governor of the Company, serves as the non-executive Chairman of the Board. By virtue of his position as Chairman he is an officer of the Company. The Governor is not, however, involved in the day-to-day management of the Company and is therefore not in a position of conflicting interests. For that reason he is not considered related.

None of the remaining Directors is related.

(4) Nominations to the Board and Continuing Assessment of Directors

The Corporate Governance Committee performs the function of a nominating committee and proposes candidates as new Directors to the Board. In this capacity, the Committee, which is composed entirely of unrelated Directors, maintains a current data base of potential new Directors. Recommendations for new Directors are made to the Board as this need arises. This Committee is also responsible for assessing performance of the current Directors on a regular basis.

(5) Assessment of Effectiveness of the Board, its Committees and Individual Directors

The Corporate Governance Committee reviews the relationship between Management and the Board and makes recommendations where appropriate. This Committee annually recommends assignment of members or candidates to Board Committees and periodically reviews the mandates of the Board Committees and makes recommendations as this Committee deems necessary. Annually, each Director completes a questionnaire which examines the effectiveness of the Board as a whole and all of the Board Committees. The Governor regularly meets privately with each Director to discuss their role as Director of the Company and assess their individual strengths and weaknesses. Directors may discuss any concerns that they may have with the effectiveness of the Board, the role and duties of the Committees and the contribution of individual Directors.

(6) Orientation and Education Program for New Directors

New Directors are invited by the Governor to meet with himself, the President and Chief Executive Officer and other senior officers for discussion and review prior to attending their first Board meeting. Tours of stores and other facilities are tailored to meet individual requirements. Each Director receives a Directors' Handbook which provides much of the information Directors require. Periodic educational sessions for experienced as well as new Directors are held preceding Board meetings at which one or more of the unique aspects of the retail business is discussed in some detail.

It has been the practice for one Board meeting in each year to be held in a city other than Toronto to enable Board members to visit different Bay and Zellers stores, to meet with local management and to gain an understanding of regional differences.

(7) Size of the Board

The size of the Board is determined annually based on contemporary needs. In 2001, the Board was comprised of 11 members. At the Annual Meeting in May 2002 shareholders will be asked to appoint 11 Directors.The Board believes that about 11 or 12 Directors, including the one executive, will be sufficient and will allow for more effective decision making in the Company as a whole.

(8) Compensation of Directors

The Corporate Governance Committee annually reviews Directors' compensation in reference to the compensation of Directors of other corporations of similar size and complexity and makes recommendations to the Board for adjustment when appropriate. Consideration, when reviewing Directors' compensation, is given to the responsibilities and risks involved in being an effective Director and other relevant factors.

(9) Composition of Committees of the Board

A majority of the members of each Board Committee are unrelated Directors. The President and Chief Executive Officer is a member of the Executive Committee and the Chief Financial Officer is a member of the Pension Committee. Both of these appointments are considered of significant strategic value to the mandates and duties of these Committees.

(10) Development of Approach to Governance Issues

The Corporate Governance Committee is charged, among other things, with the responsibility to review governance issues as they relate to the Company and to make recommendations to the Board as it deems appropriate. This Committee is responsible for the Company's Annual Statement of Corporate Governance Practices and for the Company's response to these Guidelines.

(11) Development of Position Descriptions for the Board and CEO and Approval of Corporate Objectives for CEO

The responsibilities of the Board are set out above under the heading "Mandate of the Board of Directors." These mandates clearly define the responsibilities and objectives of Management and the limitations placed on Management's authority to act. Other policies and procedures created by the Board from time to time further define Management's responsibilities and the interaction of the President and Chief Executive Officer and the Board.

(12) Structure and Procedure for Independent Board Function

The Governor is the non-executive Chairman of the Board and is responsible for ensuring that the Board discharges its duties. When appropriate, to ensure independence from Management, the inside Directors are requested to withdraw from meetings of the Board and similarly of any meetings of Board Committees. Private sessions are held by the unrelated Directors during each meeting of the Board and certain of the Committees.

(13) Audit Committee

The Audit Committee is comprised of five outside and unrelated Directors. The Audit Committee has a written mandate and well-defined responsibilities providing Audit Committee members with specific duties and responsibilities. Established procedures permit and require that the Audit Committee meet privately with both External Auditors and Internal Company Auditors on a quarterly basis to discuss and review issues that either this Committee or the Auditors deem appropriate and timely. The Audit Committee Chairman is also available to meet with the External Auditors and the Internal Auditors between regular Committee meetings as circumstances arise. The Audit Committee reviews an annual report prepared by the Internal Auditor which discusses internal controls within the Company as designed and implemented by Management and reviews the duties and responsibilities of Internal Audit. The Audit Committee reviews all financial statements prepared by the Company and reports to the Directors of the Company.

(14) Engagement of Outside Advisors by Directors

Individual Directors are entitled to appoint an outside advisor at the expense of the Company, subject to prior approval by the Board.

Committees of the Board of Directors

There are five Committees of the Board of Directors including the Audit Committee, the Corporate Governance Committee, the Executive Committee, the Human Resources Committee and the Pension Committee. The list of Directors, which appears on Page 56 of this Annual Report, discloses the membership of each Board Committee. A majority of the Directors on each Board Committee are unrelated Directors. Each Board Committee has its own written mandate as approved by the Board of Directors and is delegated specific powers and responsibilities. Meetings of all Committees are scheduled on a regular basis with the ability to call additional meetings as required.

Every member of the Board receives a copy of the minutes of each Committee meeting. Committee chairmen report as appropriate at each Board meeting and an opportunity is provided for dialogue between Committee members and the full Board.

The Audit Committee, comprising five unrelated Directors, meets at least quarterly and as otherwise called by the Chairman. It advises the Board on matters relating to External Auditors, Internal Auditors, financial reporting, accounting policies, systems and procedures, and financial management. The Committee reviews principal risks and the integrity of internal control systems and of management information systems. In addition, the Committee is responsible for social responsibility matters including the review of compliance with legislation. Principal areas of concern include health and safety, environmental protection, legal and ethical compliance, and government and community relations. During the 2001 fiscal year the Committee met on four occasions.

The Corporate Governance Committee, comprising six unrelated Directors, meets at least semi-annually or at the call of the Chairman. It performs the function of a succession and nominating committee and assesses the effectiveness of the Board, its Committees and its individual Directors. It reviews the mandates of the various Board Committees amending these mandates, with the consent of the Board, where appropriate and reviews the relationship between the Board and Management. During the 2001 fiscal year the Committee met on five occasions.

The Executive Committee, comprising five Directors, is chaired by the Governor and includes one inside Director, the President and Chief Executive Officer. The Board believes the Chief Executive Officer's participation to be both necessary and appropriate for the effective operation of this Committee and that the Chief Executive Officer be a full voting member. The Committee meets as required at the call of the Chairman. The Committee advises the Board regarding capital expenditure and financing projects and reviews and recommends to the Board policy statements regarding Donations and Political Contributions. Between Board meetings, the Committee exercises the powers of the Board except over those matters which may not be delegated or which have been reserved by the Board. During fiscal 2001 the Committee met on one occasion.

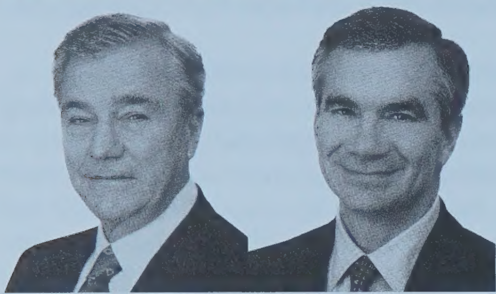
The Human Resources Committee, comprising of five unrelated Directors, meets at least semi-annually or at the call of the Chairman. The Committee advises the Board generally in all matters relating to compensation for the Company and specifically relating to compensation for Senior Executives. During the 2001 fiscal year the Committee met on four occasions.

The Pension Committee, comprising three Directors, meets at least annually or at the call of the Chairman. Membership includes the Chief Financial Officer, as a full voting member. The Board believes this to be both necessary and appropriate for the effective operation of this Committee. The Committee oversees pension plans, including their investment, safekeeping, and procedural and administrative matters and reports to the Board quarterly. During the 2001 fiscal year the Committee met on four occasions.

Board of Directors

David W. Colcleugh
Toronto
Chairman, President &
Chief Executive Officer,
DuPont Canada Inc.
Elected 2000[1,4]

James K. Gray
Calgary
Director &
Former Chairman,
Canadian Hunter
Exploration Ltd.
Elected 1998[3,4]



Guy St-Germain
Montreal
President,
Placements
Laugerma Inc.
Elected 1994[1,5]

Dominic D'Alessandro
Toronto
President & Chief
Executive Officer,
Manulife Financial
Corporation
Elected 1996[3,4]

Kerry L. Hawkins
Winnipeg
President,
Cargill Limited
Elected 1998[2,4]

Donna S. Kaufman
Toronto
Lawyer &
Corporate Director
Elected 2000[1,2]

Peter W. Mills
Toronto
Company Director &
Business Consultant
Elected 1985[1,2]

L. Yves Fortier
Montreal
Chairman &
Senior Partner,
Ogilvy Renault,
Barristers & Solicitors
Elected 1993[1,2,3,4]

George J. Heller
Toronto
President & Chief
Executive Officer,
Hudson's Bay Company
Elected 1999[3]

Walter F. Loeb
New York, N.Y.
President,
Loeb Associates Inc.
Elected 1998[2,5]

Barbara R. Hislop
Vancouver
Group Vice-President
Wood Products,
Canfor Corporation
President & Chief
Executive Officer,
Genus Resource
Management
Technologies Inc.
Elected 1993[2,5]

1 Audit Committee
2 Corporate Governance Committee
3 Executive Committee
4 Human Resources Committee
5 Pension Committee

Senior Officers

L. Yves Fortier
Governor
Hudson's Bay Company

George J. Heller
President & Chief Executive Officer
Hudson's Bay Company

Michael S. Rousseau
Executive Vice-President &
Chief Financial Officer
Hudson's Bay Company

Marc Chouinard
Executive Vice-President,
Hudson's Bay Company
President & Chief Operating Officer,
The Bay

Thomas Haig
Executive Vice-President,
Hudson's Bay Company
President & Chief Operating Officer,
Zellers

Peter A. Kenyon
Executive Vice-President,
HBC Managed Services
Hudson's Bay Company

David F. Poirier
Executive Vice-President &
Chief Information Officer
Hudson's Bay Company

David J. Crisp
Senior Vice-President,
Human Resources
Hudson's Bay Company

Donald C. Rogers
Senior Vice President,
Real Estate & Development
Hudson's Bay Company

Harold J. Chmara
Vice-President,
Risk Management & Tax
Hudson's Bay Company

Gary B. Davenport
Vice-President, Information Services
Hudson's Bay Company

James A. Ingram
Vice-President, Secretary
General Counsel
Hudson's Bay Company

Stephen F. Knight
Vice-President, Credit
Hudson's Bay Company

Arthur N. Mitchell
Vice-President and Controller
Hudson's Bay Company

Melvin R. Mitzel
Vice-President,
Shared Services Finance
Hudson's Bay Company

Robert R. Moore
Vice-President,
Corporate Communications
Hudson's Bay Company

Robert J. Shields
Vice-President, Customer
Relationship Management
Hudson's Bay Company

Michael J. Thomas
Vice-President, Logistics
Hudson's Bay Company

Wilson Zhu
Vice-President, Global Sourcing
Hudson's Bay Company

Kenneth C. Wong
Assistant Treasurer
Hudson's Bay Company

Corporate Information

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Toronto, Ontario M5H 2Y4

Auditors
KPMG LLP

Principal Bankers
Canadian Imperial Bank
of Commerce
The Royal Bank of Canada
The Bank of Nova Scotia
HSBC Bank Canada

Investor Relations
Contact:
Rob Moore
Vice-President,
Corporate Communications
Tel. (416) 861-4860
Fax (416) 216-7887

Michael S. Rousseau
Executive Vice-President &
Chief Financial Officer
Tel. (416) 861-4904
Fax (416) 861-4720

Stock Exchange Listings
Common shares are listed on
The Toronto Stock Exchange
under the trading symbol "HBC."

Transfer Agents and Registrar
Investors are encouraged to contact
our Transfer Agent and Registrar,
CIBC Mellon Trust Company,
for information regarding their
security holdings.

They can be reached at:

CIBC Mellon Trust Company
P.O. Box 7010, Adelaide Street
Postal Station
Toronto, Ontario M5C 2W9

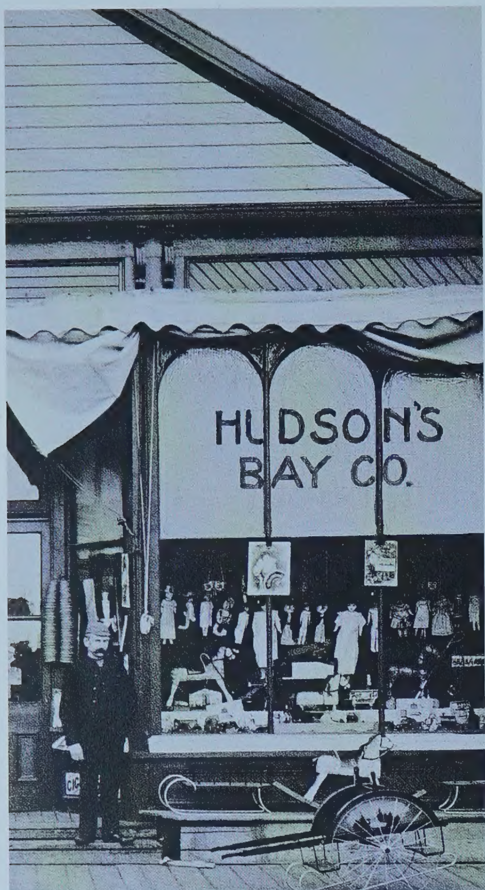
AnswerLine™: (416) 643-5500
or 1-800-387-0825
(Toll-free for North America)

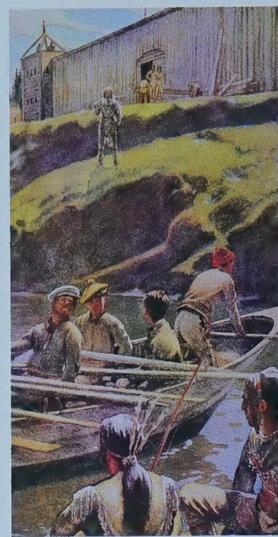
Fax: (416) 643-5501
Website: www.cibcmellon.com
Email: inquiries@cibcmellon.com

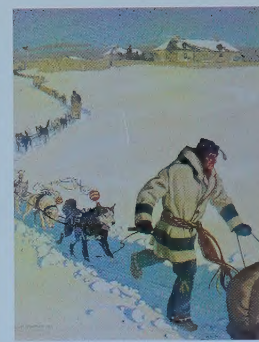
Internet
Hudson's Bay Company provides
up-to-date financial information to
investors on the performance section
of www.hbc.ca. Investors have access
to news releases, financial reports,
stock charts, audio webcasts and
HBC executive profiles.

Annual Meeting of Shareholders
The 333rd Annual Meeting of
Shareholders will be held at the
Arcadian Court, 8th Floor,
401 Bay Street, Toronto, ON
Wednesday, May 22, 2002
at 3:00 p.m.

Interbrand Tudhope, Toronto Printed in Canada







Hudson's Bay Company, 401 Bay Street, Toronto, Ontario M5H 2Y4

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